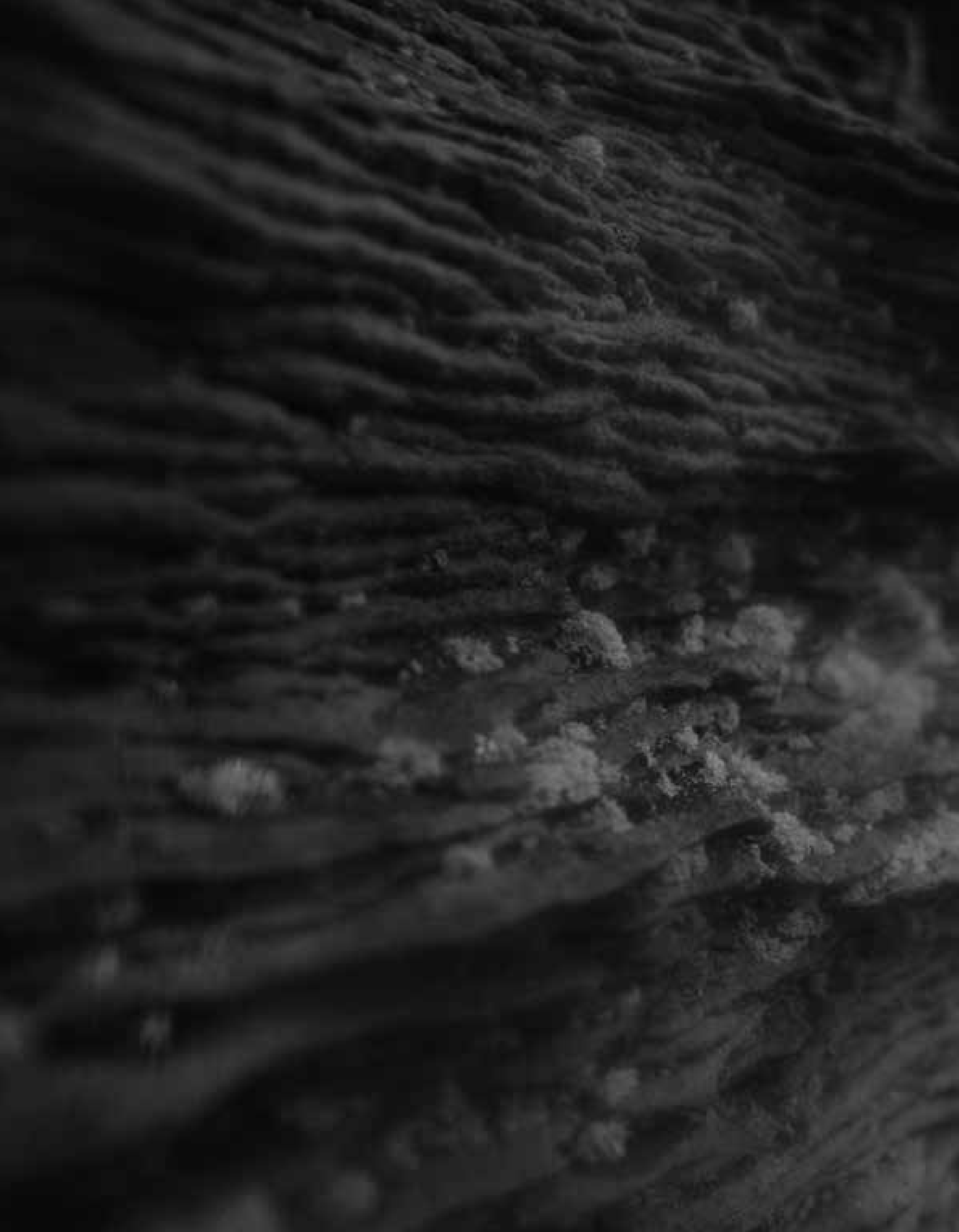
ANNUAL REPORT

2014

NORTH ENERGY ASA



Contents

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CEO's comments

Both we as a company and the oil industry as a whole found 2014 a challenging year. Few people foresaw the sudden and steep slump in oil prices, a trend which continued into 2015. Optimism and willingness to invest have been swiftly replaced by pessimism and cost cuts. The oil sector is involved in one of its biggest restructurings for a long time.

Nobody is unaffected by this. As a responsible company, we have also taken necessary steps in adapting to a new reality. Costs must be cut. At the same time, we must work even more intelligently and efficiently in seeking our commercial breakthrough.

It was recently resolved to concentrate our operations in Tromsø and Stavanger as part of efforts to reduce our overall cost base. The goal is also to build more close-knit and better integrated technical and commercial teams. We are continuing to invest in new and advanced geophysical evaluation tools in order to have the best possible basis for taking a decision to drill.

As a result of the restructuring, we will be closing our office in Alta during the year. This unfortunately means that some employees must leave and others move home. That will affect employees and their families, and will naturally be seen as a painful and demanding process for many. On behalf of the management, I can promise that we will do our best to implement this in as responsible and sensitive a manner as possible, and I would take the opportunity to extend a big thank-you to those who have accepted the inconvenience involved in moving – and not least to those who will be leaving us.

We now face a new drilling campaign, which is expected to begin in the second half of 2015. Our three planned wells for 2015 are all financed. In parallel with drilling during the year, we will be continuing work on maturing wells for 2016 and

> *"We will be a good place to work for present and future employees."*

beyond. With a portfolio comprising 23 licences, we have a solid platform on which to build further. At the same time, our goal is to repeat the success we have had in earlier licence rounds. We are well under way with preparations for new licensing-round applications.

The measures now being implemented will make us a stronger and more attractive company. We will be a good place to work for present and future employees. The capital market will perceive us as a player which is lighter on its feet and more fleet of foot, while the government will continue to recognise us as a company with a particular focus on and expertise about the far north.

History has demonstrated that the route to success in exploration is often both long and complicated. This is ultimately a case of having the stamina to stay the course. Success will come from continuing to work purposefully and tirelessly. The next steps towards this goal will be taken in 2015. We have employees with the right expertise, we have the tools, and exciting wells lie ahead. The foundation is there, and I am looking forward expectantly to the continuation.

Knut Sæberg
Acting CEO

“Success will come from continuing to work purposefully and tirelessly.”

Directors' report 2014

The business

North Energy ASA (North Energy or the company) was established on 4 September 2007. Its business purpose is to become a leading player in the north Norwegian oil and gas industry. Its primary focus is on the Barents Sea, but the company will also involve itself in commercially interesting prospects in the Norwegian and North Seas. North Energy's head office is located in Alta, with branch offices in Oslo, Stavanger and Tromsø.

Introduction

North Energy found 2014 a challenging year. Its exploration wells failed to yield commercial discoveries. Oil prices fell and continued to decline into 2015. The company's share price fell by 27 per cent.

The fact that North Energy has still to achieve a commercial breakthrough is being taken very seriously by the board, whose highest priority is to participate in commercial discoveries and thereby demonstrate solid value creation to shareholders. In the meantime, responsible steps are being taken in response to the deteriorated market conditions and the new reality facing the industry.

Costs in North Energy are to be reduced. Measures have been initiated with the aim to cut annual operating expenses, excluding exploration costs, to NOK 100 million. As part of these plans, the company is concentrating its operations in Tromsø and Stavanger as well as downsizing its overall workforce. These processes are well under way and due to be completed by the end of 2015.

The measures now being implemented will ensure that North Energy is a focused and disciplined company. Its teams will work more closely together and more intelligently. Incentive schemes will be related to shareholder value. The culture will be challenged, but the aim is not to transform the company – North Energy will continue to build on its strengths, but with even greater attention paid to short-term value creation.

Important events

An issue of 71.25 million new shares was conducted in January 2014 at a price corresponding to NOK 4 per share, with gross proceeds of NOK 285 million. The issue was a private placement with large existing shareholders and selected new investors. At the same time, North Energy entered into a convertible loan agreement with EMGS for NOK 75 million, which was applied to acquiring the EMGS library of electromagnetic (EM) data from the Barents Sea. The agreement with EMGS involves the application of EM technology which is particularly suitable for the Barents Sea, North Energy's core area. The share issue was approved by an extraordinary general meeting on 13 February 2014.

The company was awarded six new production licences, including two operatorships, in the 2013 APA round during January 2014. The following licences were awarded.

- PL 503 C - extension of PL 503 in the North Sea. Awarded 12.5 per cent interest

North Energy's ambition is to continue securing good awards in forthcoming licensing rounds.

• PL 509 CS - extension of PL 509 in the North Sea. Awarded operatorship and 40 per cent interest
• PL 590 B - extension of PL 590 in the Norwegian Sea. Awarded operatorship and 30 per cent interest
• PL 762 - in the Norwegian Sea. Awarded 20 per cent interest
• PL 770 - in the Barents Sea. Awarded 20 per cent interest
• PL 769 - in the Grid area of the Barents Sea. Awarded 20 per cent interest

Several sale and purchase agreements were entered into during the first half with Tullow Oil Norge AS and Lime Petroleum Norway AS, whereby North Energy ultimately acquired 15 per cent interests in PLs 591 and 591 B. These licences lie on the Halten Terrace in the Norwegian Sea, in the immediate vicinity of several producing fields. A start to exploration drilling in PL 591 is planned for the third quarter of 2015.

The company entered in June 2014 into a purchase agreement with Tullow Oil Norge for a 10 per cent interest in PL 507. Immediately after the acquisition, Tullow as operator drilled a wildcat on the Lupus prospect in the licence. This well proved reservoir rocks with good properties in the Hermod formation. No reservoir rocks were found in the secondary target. Hydrocarbons were not encountered and the well was declared to be dry.

EMGS opted on 20 August to convert NOK 28.4 million of its NOK 75 million loan to shares in North Energy. The outstanding balance of NOK 46.6 million was repaid to EMGS on 2 September 2014. Shares issued as a result of the conversion had an issue price of NOK 4.1451 per share. The company issued 6 851 463 new shares to EMGS, which owned 11 851 463 shares in North Energy after the conversion. That corresponded to 9.96 per cent of the company's outstanding shares.
Furthermore, an exploration well was drilled during the third quarter on the Pingvin prospect in PL 713, which proved a gas column about 129 metres high. Work has been initiated to investigate whether the gas contains liquids which could make Pingvin commercial. The discovery confirmed a new play in an unexplored area of the Barents Sea north-west of Johan Castberg. Operator Statoil estimates the volume in Pingvin to be in the order of 30-120 million recoverable barrels of oil equivalent (boe). The discovery is not regarded as commercial at present.

A series of sale and purchase agreements in PL 484 during the second half of 2014 will result in North Energy acquiring a 68 per cent interest in the licence once government approval is received.

North Energy entered on 18 December 2014 into an agreement to renew its NOK 950 million exploration loan facility for 2015-17. The bank consortium for this credit comprises DNB and SEB, with DNB as the coordinator and agent. The agreement includes an option to increase the facility to a maximum of NOK 1 150 million.

In view of low oil prices and difficult market conditions, the board initiated a process in December 2014 which aims to assess the strategic opportunities available to the company. DNB Markets has been hired to advise on the process. At the same time, the company is adjusting its level of activity to the challenging market conditions in the industry.

The company announced on 7 January 2015 that drilling had started on the Tvillingen South prospect in PL 510 in the Norwegian Sea. Following operational challenges related to liner setting in the intermediate downhole section, the licence partners resolved to terminate the drilling operation. They are now evaluating future opportunities for the licence's work programme.

North Energy received two further licences in the 2014 APA round, one in the Barents Sea and the other in the Norwegian Sea. The company was awarded a 20 per cent holding in PL 805, located on the Loppa High in an exciting area just east of the Gohta and Alta discoveries in the Barents Sea. This area was recently covered by modern 3D seismic surveys.

North Energy obtained a 15 per cent interest in PL 591 C, located in the Norwegian Sea, as an extension of an existing licence.

Going concern

Pursuant to section 3-3a of the Norwegian Accounting Act, confirmation is hereby given that the going concern assumption is realistic. That assumption rests on the company's financial position, including the share issue conducted after the balance sheet date, as well as profit forecasts for 2015 and the company's long-term strategic predictions for the years to come.

Comments on the annual financial statements

The financial statements have been compiled in accordance with the rules of the Norwegian Accounting Act and the International Financial Reporting Standards (IFRS) approved by the European Union. The financial statements to which the comments below relate are for the North Energy group, comprising North Energy ASA and 4Sea Energy AS.

The board is not aware of any significant considerations which affect the assessment of the group's position at 31 December 2014, or the net result for the year, other than those presented in the directors' report and the financial statements.

North Energy participated in two exploration wells during 2014: Lupus in PL 507 and Pingvin in PL 713. Lupus was dry, while Pingvin – despite encountering a 129-metre gas column – is not regarded as commercial at present. Both wells have accordingly been expensed in their entirety under exploration and licence costs. In addition, a wildcat was spudded in PL 510 (Tvillingen South) during December and the balance sheet at 31 December included capitalised expenses for this well in the order of NOK 33.1 million. When the partnership resolved to plug and abandon the well as a result of problems during drilling, these capitalised drilling costs in fiscal 2014 have been expensed under exploration and licence costs.

The overall pre-tax loss was NOK 477.7 million. At NOK 716.3 million, the loss for 2013 was significantly higher because an impairment charge of NOK 431.4 million before tax was taken for previously capitalised drilling costs related to the exploration and appraisal wells in PL 590 Norvarg. Excluding this Norvarg effect, the loss in 2014 was NOK 192.8 million higher than the year before. That primarily reflected increased exploration costs and reduced gain on the sale of licence interests.

Corrected for Norvarg, exploration expenses rose by NOK 100 million from 2013 to 2014. That primarily reflected increased purchases of EM and seismic data, which must be seen in relation to the planned commitment to the 2015 APA and 23rd licensing rounds and to the company's strategy of using other information sources to supplement seismic data for derisking projects.

Revenues for the company came to NOK 3.5 million in 2014, representing gain on the sale of interests in PLs 498, 509 and 591. That compared with a 2013 gain of NOK 98.6 million from the sale of interests in PLs 299, 498, 503, 503 B, 590,616, 707 and 708.

Payroll costs for 2014 rose by NOK 1.9 million from the year before and came to NOK 52.9 million. The increase primarily reflects an expansion in the number of employees.

Other operating costs increased overall from NOK 33.4 million in 2013 to NOK 36.2 million, reflecting the purchase of licences for exploration-related software and greater travel activity.

Net financial expenses declined overall by NOK 4.7 million from 2013 to NOK 20.3 million, primarily as a result of reduced draw-down on the exploration loan because the company's equity was boosted by NOK 285 million in the first quarter of 2014.

The net loss for 2014 was NOK 124.5 million, compared with NOK 149.7 million the year before.

Total assets were valued at NOK 597.3 million in the balance sheet at 31 December 2014, up by NOK 74.6 million from 2013. This increase partly reflects a NOK 30.2 million rise in deferred tax asset. Prepaid expenses and other receivables also rose by NOK 24.1 million, primarily as a result of prepayments in the various licences. In addition, the tax credit increased by NOK 21.4 million and cash in hand was up by NOK 10.7 million

Equity came to NOK 440.1 million at 31 December, compared with NOK 260.6 million in 2013. The equity ratio thereby rose from 49.8 to 73.7 per cent. Equity increased primarily because the company raised NOK 285 million through the private placement in February.

Non-current liabilities in the company at 31 December 2014 totalled NOK 42 million, down from NOK 48.2 million the year before. The reduction primarily reflected the repayment of part of the convertible loan from Rex Technologies Management.

Current liabilities at 31 December 2014 totalled NOK 115.2 million, down from NOK 214 million the year before. This was primarily because of a reduction in the exploration loan from NOK 165 million in 2013 to NOK 55 million.

Net cash flow from operating activities was negative at NOK 2.4 million in 2014. A tax refund of NOK 353.5 million had a positive effect on cash flow, as did the purchase of EM data for NOK 75 million financed by loans and the issue of shares. An increase of NOK 33.1 million in working capital as a result of drilling preparations in PL 510 had a negative effect.

Net cash flow from investing activities was negative at NOK 66.9 million, reflecting NOK 64.5 million in capitalised exploration and licence costs for PLs 510 and 713. This represented an improvement from a negative cash flow of NOK 162 million in 2013, when PL 535 had a negative impact.

Net cash flow from financing activities came to NOK 80 million, compared with a negative NOK 38.2 million in 2013. The sum derives from the issue of shares during the year worth a net NOK 271.4 million less redemptions of NOK 115 million in exploration loan and NOK 56.6 million in convertible loan as well as the payment of NOK 19.8 million in transaction costs and interest on loans.

The net change in cash and cash equivalents thereby totalled NOK 10.7 million, compared with a negative NOK 13.5 million in 2013.

The board regards the company's financial position as satisfactory.

Future developments

Key targets for North Energy since its foundation have been to build a strong organisation, develop a solid licence portfolio, drill on promising prospects and participate in commercial discoveries. In the longer term, the goal has been to position the company to take part in the development and production phases.

The board has not been satisfied with the results achieved so far. North Energy has failed to achieve a commercial breakthrough, despite being on the track of oil and gas in many of its exploration wells. On that basis, the company has made a commitment over the past two years to advanced new geophysical evaluation tools as a supplement to conventional methods. New interpretations have led to fairly substantial changes in the portfolio and a period of low drilling activity. The company is now well under way with preparations for a new drilling campaign, and the board is looking forward to further wells being spudded in the second half of 2015.

In addition to active management of the existing portfolio, North Energy has ambitions to continue securing good awards in forthcoming licensing rounds – both the annual ones for mature areas and the numbered series in new regions. The board takes a positive view of the fundamental prospects for the upstream market in the oil and gas industry. In view of the low oil prices and difficult market conditions, the board initiated a process in December 2014 which aims to assess the strategic opportunities available to the company. DNB Markets has been hired to advise on the process. At the same time, the company is adjusting its level of activity and costs to the challenging market conditions in the industry. North Energy aims to implement measures in the first half of 2015 which will reduce the company's annual operating costs, excluding exploration expenses, to NOK 100 million. As part of this plan, the company will concentrate its operations in Tromsø and Stavanger and cut overall staffing. These processes are well under way and due to be completed by the end of 2015.

Forward-looking statements reflect the board's present view of future circumstances and are naturally uncertain, since new developments could easily lead to significant changes.

Corporate governance

Corporate governance in North Energy is based on the Norwegian code of practice for corporate governance. A separate status report related to the code has been included in this annual report. Any non-compliance with the code is specified and explained in the status report.

North Energy's corporate governance builds on the Norwegian oil industry's standards for internal control, and the group was qualified as a licensee on the NCS in 2008 and prequalified as an operator in 2009. Systems for internal control have subsequently been maintained and further developed. The company secured a stock exchange listing in February 2010, and the group built up systems and routines ahead of that event to handle the demands made on listed companies in terms of accurate financial reporting within specified deadlines.

The board intends to take account of all relevant factors in the company's overall risk picture. In this way, it seeks to ensure that the collective operational and financial exposure is at a satisfactory level.

North Energy's articles of association contain no provisions which wholly or partly exceed or restrict the provisions in chapter 5 of the Norwegian Public Companies Act.

A number of considerations which collectively ensure a good and broad composition have been taken into account when electing the board. These include an appropriate gender distribution, good strategic, petroleum technology and accounting expertise, a good division between owner-based and independent candidates, and relevant representation of company employees. The board functions collectively as an audit committee. A compensation committee drawn from the board has also been established to ensure that remuneration of employees is matched to market levels.

Instructions have been developed and adopted for the chief executive, the board and the company's nomination committee. The instructions for the board specify its principal duties and the responsibilities of the chief executive towards the board, as well as guidelines for handling matters between the board and the executive management. The instructions for the nomination committee specify its mandate and provide guidelines on its composition and mode of working.

The company's articles of association provide no guidance on the composition of the board, other than that it must comprise three to nine directors. The articles do not authorise the board to purchase the company's own shares or to issue shares. At the annual general meeting of 25 April 2014, the board was mandated to increase the share capital by up to 10 per cent. This mandate is unused, and expires with the 2015 AGM.

Risk assessments

Overall objectives and strategy

North Energy's financial risk management is intended to ensure that risks of significance for the company's goals are identified, analysed and managed in a systematic and cost-efficient manner. The company is exposed to financial risk in various areas, particularly liquidity risk and access to the necessary liquidity. After that comes the exchange rate between US dollars and Norwegian kroner as well as interest rates. The liquidity risk has been reduced by the successful private placement in February 2014. The foreign exchange risk is limited since borrowings to date have not been made in foreign currencies. Monitoring of risk exposure and assessment of the need to deploy financial instruments are pursued continuously.

Liquidity risk

North Energy's core business is exploration for oil and gas on the NCS. Each drilling operation in which the company participates is expensive, and each well carries a substantial risk of being dry. As a result of the sharp fall in oil prices during 2014, the transaction market for sales of licence interests and discoveries has contracted substantially. This creates a risk for North Energy that possible future commercial discoveries in which it is involved will be less attractive to the market. Risk-reducing measures involve exploring in areas close to existing or planned infrastructure, where the probability of achieving sales in the short term is higher, and paying increased attention to exploring for oil rather than gas.

The group's on-going financing needs are forecast and the level of activity tailored to the available liquidity. The company's operations in this phase are primarily financed from equity. It also made use during 2014 of the convertible loan agreements with TGS Nopec and Rex Technology Management for purchasing seismic data and evaluating prospects, where the total convertible loan balance at 31 December 2014 was NOK 31 million. A NOK 75 million convertible loan agreement with EMGS for the purchase of EM data was entered into on 20 February 2014. Part of the loan has been converted to shares and the outstanding balance redeemed.

Loans have otherwise been raised by North Energy in connection with bridge financing to cover the state's exploration costs until these are refunded through the tax settlement, which occurs 12-24 months after the costs have been incurred. North Energy's liquidity was significantly strengthened through a NOK 285 million share issue approved by an extraordinary general meeting of 13 February 2014 as well as the conversion of part of the EMGS loan to shares in August 2014.

Foreign exchange and market risk

North Energy is not involved in producing fields and accordingly has no direct exposure to large oil price fluctuations. The company entered into several short-term futures contracts to reduce its foreign exchange risk and thereby its operational market risk. North Energy continuously evaluates currency hedges for costs in foreign currencies where the payment dates are known.

Interest rate risk

The company is exposed to interest rate changes for its bridge financing, which normally has an average term of 18 months, since this financing carries floating interest rates. The company has not entered into hedge contracts to restrict the interest risk. Interest rates on the convertible loan agreements with TGS Nopec, Rex Technology Management and EMGS are fixed. Furthermore, fluctuations in interest rates may affect investment opportunities in future periods.

Credit risk

The risk of bad debts is considered low, since the great bulk of the company's receivables in this phase relate to the Norwegian government and comprise the tax value of exploration costs.

Operational risk

North Energy is an enterprise where operational risk is closely related to its expertise. The company accordingly devotes attention to developing its expertise and organisation, and to its management systems. Furthermore, it will depend as an exploration company on the political desire to exploit resources in interesting areas.

HSE and the natural environment

North Energy continued its efforts to find and develop petroleum resources on the NCS in 2014, with particular attention paid to the far north. Through the perspective study it published on the Barents Sea during the year, the company has sought to focus attention on the vulnerability of the industry in such areas as the climatic challenges which can be expected when the petroleum industry takes further and longer steps northwards. North Energy is convinced that substantial petroleum resources can be sought and developed in large parts of the Barents Sea in a prudent manner with regard to the environment, safety and emergency preparedness. But this requires the adoption of new knowledge and solutions for pursuing such activities north of the areas where the industry has already established itself.

A number of demanding goals were set by North Energy for 2014 in order to strengthen the company's position and reputation as a responsible licensee on the NCS. The company actively discharged its see-to-it duty during the year through participation in risk assessments of drilling plans at licensee meetings and in HSE audits of operators for licences where it has interests. No serious accidents or emissions/discharges were recorded for the drilling operations with North Energy involvement during 2014. The board considers it important that employees regard North Energy as a secure and pleasant workplace. Frequent working environment surveys are accordingly conducted so that employees can contribute to improving conditions in the company. The geographic spread of North Energy's offices appears to work satisfactorily in terms of everyday communication, but surveys have also shown the need to bring all employees together on certain occasions to strengthen the working environment and collaboration. A great deal of attention is paid to health and ergonomic design in the workplace to avoid strain injuries and to create a healthy and energetic organisation. No occupational accidents were recorded internally at North Energy's offices. Staff turnover is very low, and overall sickness absence in 2014 was 2.4 per cent.

North Energy's offices in Alta, Tromsø, Oslo and Stavanger have a modern design and outfitting, with good air conditioning and a high level of computer security. Conditions for energy-efficient office operation are good, with energy-saving ventilation, night temperature reduction and time-controlled lighting at all the company's premises. Extensive use is made of modern video/audio conferencing between the offices, in part to reduce travel. Waste is sorted at each office to contribute to environmental targets set by the local authorities.

Research and development

The company's commitment to research and development (R&D) is intended to support its business and help it reach its strategic and operational goals. North Energy is still a young company, where operations relate primarily to exploration, emergency preparedness and building up expertise. This also influences its R&D commitment, which included further development of collaboration with research teams and universities in Norway during 2014.

Human resources and equal opportunities

North Energy had 43 employees at 31 December. The company has a multicultural working environment, with seven nationalities represented in the workforce. When making new appointments, it will continue to facilitate diversity in, but not confined to, gender, cultural background and experience. Remuneration is determined in accordance with the content of the work and the employee's qualifications. The remuneration of the executive management is described in the notes to the financial statements.

North Energy's goal is a workplace where equality of opportunity prevails between men and women.

Its policy is that nobody should be subject to discriminatory treatment on the grounds of gender. Women account for 28 per cent of the workforce. The executive management comprises five people, including two women, while the board has five shareholder-elected directors and one worker director elected by and from among the employees. In addition, the board has an observer elected by and from among the workforce. Two of the shareholder-elected directors are women. The company will continue to pay attention to gender equality, and wishes to maintain a high proportion of women in leading posts.

Corporate social responsibility (CSR)

The board of North Energy gives emphasis to a positive contribution being made by the company to those sections of society affected by its operations, while simultaneously looking after the interests of the owners. The company follows this up by integrating social and environmental considerations in its strategy and day-to-day operations. To emphasise its CSR, the company has developed a policy document which is published on its website.

Reporting of payments to the government

Enterprises in the extractive industries with a statutory duty to prepare accounts are required to prepare and publish an annual report with information on their payments to government at country and project level. This report is available on the company's website at www.northenergy.no.

Ownership

North Energy had 901 shareholders at 31 December. Following the capital expansion of NOK 285 million and the issue of 71.25 million new shares, THS Partners is the largest shareholder with a 13.7 per cent holding. It is followed by Elliot with 10 per cent. EMGS opted during the year to convert part of a convertible loan to shares in North Energy, and thereby acquired a 9.9 per cent interest. Shareholders introduced to the company through the issue own about 48 per cent of North Energy's roughly 119 million shares, with those who were already shareholders controlling 52 per cent.

Corporate governance

Corporate governance is the board's most important instrument for ensuring that the company's resources are managed in an optimum manner and contribute to long-term value creation for shareholders. In this connection, the board would refer to the separate presentation of the company's corporate governance in this annual report.

Net loss and coverage of net loss

North Energy had no distributable equity at 31 December. The board proposes that the net loss of NOK 124.5 million be transferred to uncovered losses.

Alta, 25 March 2015

Anders Onarheim
Chair

Johan Petter Barlindhaug
Director

Elin Karfjell
Director

Alexander Krogh
Director

Jogeir Romestrand
Director

Heidi Marie Petersen
Director

Knut Sæberg
Acting CEO

Corporate governance

Pursuant to section 3, sub-section 3b of the Norwegian Accounting Act, North Energy is required to include a description of its principles for good corporate governance in the directors' report of its annual report or alternatively refer to where this information can be found. The Norwegian Corporate Governance Board (NCGB) has issued the Norwegian code of practice for corporate governance (the code), which can be found at www.nues.no. Observance of the code is based on the "comply or explain" principle, which means that companies must explain either how they comply with each of the recommendations in the code or why they have chosen an alternative approach.

The Oslo Stock Exchange requires that listed companies provide an annual explanation of their corporate governance policy in line with the applicable code. Current requirements for companies listed on the Oslo Stock Exchange can be found at www.oslobors.no.

The following presentation of corporate governance has the same structure as the code, and follows the code's structure with 15 main subjects.

1. Implementation and reporting on corporate governance

North Energy's decisions and actions will be based on its core values:

- at the forefront
- competent
- bridge-builder
- a fearless voice in the north.

It is the executive management's job to ensure that the areas of responsibility, individually and collectively, are prioritised on the basis of these core values and in accordance with the code. The company has drawn up guidelines on ethics and corporate social responsibility, which are available on the company's website at www.northenergy.no.

2. The business

North Energy's business purpose is to pursue exploration for as well as development and production of oil and gas on the NCS and in the Russian sector of the Barents Sea, and to be able to own or participate in companies which conduct similar activities, including through subsidiaries. The company's vision is to develop a leading and profitable oil and gas company which contributes actively to industrial value creation in the far north. This will be achieved through the following main strategies:

- acquire and be awarded the best licences in the Norwegian and Barents Seas
- ensure an adequate capital base to finance the company through exploration, development and into production
- ensuring access to good investment opportunities by being an attractive partner for government and leading oil companies
- be a credible and attractive partner for important stakeholders, such as suppliers/contractors, the fishing industry and environmental interests
- establish a basis for long-term value development and spin-offs in the far north.

North Energy's articles of association specify clear parameters for its operations, while visions, goals and strategies are enshrined in its management system. Work to prepare the company for operator assignments on the NCS continued during 2014, and updates to procedures and process descriptions have been made in that connection.

Further information on the company's articles of association can be found at http://www.northenergy.no/en/about/articles-of-association and on licences and operations at http://www.northenergy.no/en/our-business/license-map

3. Equity and dividends

Since its formation in 2007, North Energy has been solely an exploration company without revenues except from the sale of licence interests. Its activities are primarily financed through equity, which has been significantly strengthened through the share issue approved by the extraordinary general meeting of 13 February 2014. This involved the issue of 71.25 million new shares at a subscription price of NOK 4.00. The company entered into a loan agreement with EMGS under which the lender had the right but not the obligation to convert the loan to shares. The agreement with EMGS had a framework of NOK 75 million. EMGS opted on 20 August 2014 to convert NOK 28.4 million of the loan to shares in the company at a conversion price of NOK 4.1451 per share. The outstanding loan balance of NOK 46.6 million was redeemed on 2 September 2014. Following the conversion of loan to shares, EMGS increased its holding in the company to 9.96 per cent.

Furthermore, the board was mandated by the annual general meeting in 2014 to issue new shares up to a limit of 10 per cent of the existing number of shares. This mandate is valid until the next AGM, but has not been utilised.

The company's equity totalled NOK 440 million at 31 December. That represents 74 per cent of its total capital. Liquidity is regarded as satisfactory in relation to the company's future obligations. Cash, cash equivalents and provision for tax refunds, less interest-bearing debt, totalled NOK 325 million at 31 December. North Energy also has an overdraft facility of NOK 950 million which covers tax-refundable exploration costs, and NOK 55 million of this had been drawn down at 31 December. The overdraft facility was extended in December 2014 to the end of 2017. North Energy has not paid a dividend and does not expect to make any dividend payment in the next few years.

4. Equal treatment of shareholders and transactions with close associates

Should North Energy be a party to a transaction with close associates of the company or with companies in which directors or senior executives, or their close associates, have a significant interest, directly or indirectly, the parties concerned must immediately notify the board. All such transactions must be approved by the chief executive and the board and, where required, also be reported to the market. North Energy made no investment in its own shares during 2014.

5. Freely negotiable shares

The North Energy share is listed on the Oslo Axess exchange. All the shares are freely negotiable. The articles of association impose no restrictions on the negotiability of the share.

6. General meetings

The company's general meetings in 2014 were held in accordance with the Public Companies Act.

The general meeting is North Energy's highest authority. The board endeavours to ensure that the general meeting is an effective forum for communication between the board and the company's shareholders. As a result, the board makes provision for the highest possible participation by the company's owners at the general meeting. Notice of the meeting and supporting documentation for items on the agenda are made available on the company's website no later than 21 days before the general meeting. Provision is also made to vote in advance of the company's general meeting. Elections are organised in such a way that it is possible to vote separately for each candidate to serve on the company's elected bodies. Shareholders who cannot attend the general meeting in person are able to appoint a proxy to vote on their behalf. Proxy forms have been drawn up which allow the proxy to be instructed how to vote on each agenda item.

The board determines the agenda for the general meeting. However, the most important items on the agenda are dictated by the Public Companies Act and the company's articles of association. Minutes of the meetings are posted to the company's website the day after the general meetings have been held at the latest.

7. Nomination committee

The job of the nomination committee is to submit recommendations, with justifications, to the general meeting on the election of shareholder-elected directors and to nominate the chair of the board. Furthermore, the committee will submit proposals for the remuneration of directors and recommend members of the committee. Establishment of the committee is stipulated in the articles of association, and its work is regulated by instructions adopted by the general meeting. Nomination committee members are independent of the board and the company's executive management.

Members of the committee receive a fixed remuneration which is not dependent on results. The general meeting decides on all recommendations made by the committee.

8. Corporate assembly and board of directors: composition and independence

North Energy has chosen not to have a corporate assembly.

The board is organised in accordance with the Public Companies Act, with two women and three men as shareholder-elected directors. All have broad experience. Two of these directors are elected independently of the company's shareholders. In addition, one director and an observer are elected from and by the company's employees. Neither of them belong to the executive management. The directors represent both industry-specific and professional expertise from national and international companies. More information on each director is available at www.northenergy.no.

Shareholder-elected directors are elected for two-year terms. Elections are conducted in such a way that new directors can join the board every year.

North Energy regards all its directors as independent of the company's executive management and significant business partners. At present, four of the directors own shares directly or indirectly in North Energy. No director holds options to buy further shares.

9. The work of the board of directors

The board's work is regulated by instructions. Its duties consist primarily of managing North Energy, which includes determining the company's strategy and overall goals, approving its action programme and ensuring an acceptable organisation of the business in line with the company's articles of association. The board can also determine guidelines for the business and issue orders in specific cases. The board must look after North Energy's interests as a whole, and not act as individual shareholders.

A clear division of responsibility has been established between the board and the executive management. The chief executive is responsible for operational management of the company and reports regularly to the board.

The administration is responsible for preparing matters for board meetings. Ensuring that the work of the board is conducted in an efficient and correct manner in accordance with relevant legislation is the responsibility of the chair. The board ensures that the auditor fulfils a satisfactory and independent control function. It presents the auditor's report to the general meeting, which also approves the remuneration of the auditor. It was resolved in 2014 that the audit committee's duties would be discharged directly by the board.

A compensation committee was established by the board in 2014, and comprises the following directors:

- Anders Onarheim, chair of the board
- Jogeir Romestrand
- Elin Karfjell.

The committee will ensure that compensation arrangements support the company's strategy and enable it to recruit, motivate and retain managers of a high standard, while complying with requirements set by governing bodies, fulfilling shareholder expectations and being in line with the expectations of the rest of the workforce.

The board conducts an annual evaluation of its work, competence and performance.

Fifteen board meetings were held in 2014, including four without physical attendance, and average attendance by directors was 90 per cent.

10. Risk management and internal control

Strict standards are set for the company's internal control and management system as a player in the oil and gas industry. Work on further development and improvement of North Energy's management system and associated documentation is a priority job in the company's corporate governance and risk management. North Energy concentrated attention during the year on enhancing awareness and a sense of responsibility among the employees in order to improve the system's processes. The company's management system is a good tool for the executive management and the workforce, and reduces the risk of errors and misunderstandings. The system facilitates collaboration and learning, and ensures continuity in the execution of the company's processes.

North Energy has incorporated well-functioning systems and routines to identify, record and follow-up nonconformities. These are all followed up systematically by the company management, which sees to it that corrective measures are adopted. Undesirable incidents, unfortunate conditions and improvement suggestions are recorded and dealt with in the same improvement system.

The executive management follows up conditions which present the company with a financial risk on a daily basis, and reports these to the board. Reporting to the board by the company gives emphasis both to the on-going risk in daily operations and to risk associated with the investment opportunities presented. In addition, the board considers an overall risk assessment at least twice a year which takes account of all the company's activities and the exposure these involve. The board is also presented at regular intervals with the auditor's assessments of financial risk.

11. Remuneration of the board of directors

The nomination committee recommends the directors' fees to the general meeting, and takes account of their responsibility, qualifications, time taken and the complexity of the business. Directors' fees are not profit-related. North Energy has not issued any options to its shareholder-elected directors.

None of the shareholder-elected directors have undertaken special assignments for North Energy other than those presented in this report, and none have received compensation from the company other than normal directors' fees.

12. Remuneration of executive personnel

The board determines the remuneration of the chief executive and takes account of the responsibility involved, qualifications, the complexity of the work and the results achieved. Furthermore, the board determines the principles for remunerating other senior executives in the company, and these are explained in this annual report. All employees have the same performance-based bonus scheme. Further information is provided in the notes to the annual financial statements.

13. Information and communications

North Energy keeps shareholders and investors regularly informed about its commercial and financial status. The requirements for such information have been increased by the company's stock exchange listing and the expansion in the number of its shareholders. The board is concerned to ensure than players in the stock market receive the same information at the same time, and all financial and commercial information is accordingly made available on the company's website. Stock exchange announcements are distributed through www.newsweb.no.

The annual financial statements for North Energy are made available on its website at least three weeks before the general meeting. Interim reports are published within two months of the end of each quarter. Quarterly presentations are transmitted directly over the internet. North Energy publishes an annual financial calendar which is available on the Oslo Stock Exchange website.

The board gives emphasis to openness and equal treatment in relation to all players in the market, and strives at all times to give as correct a picture as possible of the company's financial position.

14. Takeovers

North Energy's articles of association contain no restrictions on or defence mechanisms against the acquisition of the company's shares. In accordance with its general responsibility for the management of North Energy, the board will act in the best interests of all the company's shareholders in such an event. Unless special grounds exist, the board will not seek to prevent takeover offers for the company's business or shares. Should an offer be made for the shares of North Energy, the board will issue a statement which recommends whether shareholders should accept it.

15. Auditor

The annual financial statements are audited by PricewaterhouseCoopers AS. The board receives and considers the auditor's report after the financial statements for the relevant year have been audited. The auditor submits an annual plan for the conduct of audit work, and attends board meetings when the consideration of accounting matters requires their presence. In at least one of these meetings, the auditor makes a presentation to the board without the executive management being present. The auditor presents a declaration of independence and objectivity. Relations with the auditor are regularly reviewed by the board to ensure that the auditor exercises an independent and satisfactory control function. The board presents the auditor's fee to the general meeting for approval by the shareholders.

Alta, 25 March 2015

Anders Onarheim
Chair

Johan Petter Barlindhaug
Director

Elin Karfjell
Director

Alexander Krogh
Director

Jogeir Romestrand
Director

Heidi Marie Petersen
Director

Knut Sæberg
Acting CEO

Financial statements

North Energy group

Consolidated income statement

(NOK 1 000)	Note	2014	2013
Gain from sales of licences	22	3 493	98 576
Payroll and related expenses	5	(52 948)	(51 029)
Depreciation and amortisation	16	(6 611)	(8 880)
Exploration expenses	17	(365 132)	(696 551)
Other operating expenses	6	(36 199)	(33 419)
Operating loss		**(457 397)**	**(691 302)**
Financial income	18	12 089	14 011
Financial expenses	18	(32 414)	(39 055)
Net financial items		**(20 324)**	**(25 044)**
Loss before income tax		**(477 722)**	**(716 346)**
Income tax credit	15	353 212	566 682
Loss for the year		**(124 509)**	**(149 664)**
Earnings per share (NOK per share)			
- Basic	13	(1.19)	(3.67)
- Diluted	13	(1.19)	(3.67)

Consolidated statement of comprehensive loss

(NOK 1 000)	Note	2014	2013
Loss for the year		**(124 509)**	**(149 664)**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss in subsequent periods:			
Remeasurements pension, actuarial gain/(loss)	21	(725)	306
Total other comprehensive income, net of tax		**(725)**	**306**
Total comprehensive loss for the year		**(125 234)**	**(149 358)**

Consolidated balance sheet

(NOK 1 000)	Note	31.12.14	31.12.13
ASSETS			
Non-current assets			
Property, plant and equipment	16	9 901	9 165
Capitalised exploration and licence costs	17	11 540	17 496
Deferred tax asset	15	131 748	101 568
Other receivables	7	4 388	10 982
Total non-current assets		**157 578**	**139 212**
Current assets			
Prepayments and other receivables	8	40 379	16 312
Tax receivable, refund tax value exploration expenses	15	373 624	352 220
Cash and cash equivalents	9	25 740	15 024
Total current assets		**439 743**	**383 556**
Total assets		**597 320**	**522 768**
EQUITY AND LIABILITIES			
Equity			
Share capital	10	119 047	40 813
Share premium		965 772	740 387
Other paid-in capital		30 691	29 570
Retained earnings		(675 435)	(550 201)
Total equity		**440 075**	**260 570**
Liabilities			
Non-current liabilities			
Pension liabilities	21	10 890	7 491
Convertible loans	23	31 120	40 697
Total non-current liabilities		**42 009**	**48 188**
Current liabilities			
Current borrowings	11	55 000	164 989
Trade creditors		20 997	8 101
Other current liabilities	12	39 239	40 920
Total current liabilities		**115 236**	**214 011**
Total liabilities		**157 245**	**262 199**
Total equity and liabilities		**597 320**	**522 768**

Alta, 25 March 2015

Anders Onarheim
Chair

Johan Petter Barlindhaug
Director

Elin Karfjell
Director

Alexander Krogh
Director

Jogeir Romestrand
Director

Heidi Marie Petersen
Director

Knut Sæberg
Acting CEO

Consolidated statement of changes in equity

(NOK 1 000)	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2013	40 813	740 387	29 570	(400 843)	409 928
Comprehensive income:					
Total compehensive income for 2013	0	0	0	(149 358)	(149 358)
Equity at 31 December 2013	**40 813**	**740 387**	**29 570**	**(550 201)**	**260 570**
Equity at 1 January 2014	40 813	740 387	29 570	(550 201)	260 570
Transactions with owners					
Share issues	78 234	235 299	0	0	313 532
Share issue expenses (net after tax)	0	(9 914)	0	0	(9 914)
Convertible loan - equity component (net after tax)	0	0	632	0	632
Share-based payment, bonus shares	0	0	489	0	489
Comprehensive income					
Total compehensive income for 2014	0	0	0	(125 234)	(125 234)
Equity at 31 December 2014	**119 047**	**965 772**	**30 691**	**(675 435)**	**440 075**

Consolidated cash flow statement

(NOK 1 000)	Note	2014	2013
Cash flow from operating activities			
Loss before income tax		(477 722)	(716 346)
Adjustments:			
Tax refunded	15	353 518	505 192
Deprecitiation	16	6 611	8 880
Gain from sales of licences	22	(3 493)	(98 576)
Impairment of capitalised exploration expenses	17	66 880	502 665
Pensions		5 402	(845)
Expensed share-based payment recognised in equity		621	0
Transaction costs and interest on borrowings recognised in P&L	18	23 931	30 831
Changes in fair value of conversion rights and loans at amortised cost	18	555	(433)
Debt-financed exploration expenses without impact on cash flows	23	75 000	0
Changes in trade creditors		12 896	(35 969)
Changes in other accruals		(66 631)	(8 720)
Net cash flow from operating activities		**(2 432)**	**186 678**
Cash flow from investing activities			
Purchase of property, plant and equipment	16	(7 347)	(2 292)
Proceeds from sales of licences	22	3 666	86 770
Capitalised exploration and licence costs	15,17	(64 484)	(251 547)
Proceeds from payments of other non-current receivables	7	1 296	5 091
Net cash flow from investing activities		**(66 869)**	**(161 978)**
Cash flow from financing activities			
Funds drawn current borrowings	11	500 000	485 000
Repayments of current borrowings	11	(615 000)	(539 582)
Funds drawn convertible loans	23	12 183	42 028
Repayments of convertible loans	23	(68 814)	0
Transaction costs and interest on borrowings paid	11,18	(19 772)	(25 618)
Proceeds from share issues		271 420	0
Net cash flow from financing activities		**80 017**	**(38 172)**
Net change in cash and cash equivalents		**10 716**	**(13 472)**
Cash and cash equivivalents at 1 January	9	15 024	28 496
Cash and cash equivivalents at 31 December	**9**	**25 740**	**15 024**

Notes

North Energy group

Note 1
General information

The consolidated financial statements of North Energy were approved by the board of directors and CEO on 25 March 2015.

North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office in Alta. The company's shares were listed on Oslo Axess on 5 February 2010.

The group's only business segment is exploration for oil and gas on the Norwegian continental shelf.

Note 2
Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis for preparation
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements pursuant to the Norwegian Accounting Act.

The financial statements have been prepared on a historical cost basis.

2.2 Basis of consolidation
The consolidated financial statements comprise the financial statements of North Energy ASA and its subsidiary 4Sea Energy AS. Subsidiaries are all entities over which the group has the power to govern the financial and operating policies (control), generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group, and they are deconsolidated from the date control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between the group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Acquisitions of subsidiaries are accounted for using the acquisition method of accounting. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition costs are expensed as incurred.
The excess of the consideration transferred over the fair value of the identifiable net assets of the subsidiary acquired is recorded as goodwill. Each acquisition is considered individually to determine whether the acquisition should be deemed to be a business combination or an asset acquisition.

When acquisitions are deemed to be asset acquisitions, no deferred tax on initial differences between carrying values and tax bases is recorded, nor is any goodwill recorded at the date of acquisition.

2.3 Foreign currency

Functional currency and presentation currency

The group's presentation currency is Norwegian kroner (NOK). This is also the parent company's and the subsidiary's functional currency.

Transactions in foreign currency

Foreign currency transactions are translated into NOK using the exchange rates at the transaction date. Monetary balances in foreign currencies are translated into NOK at the exchange rates on the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment charges. Depreciation is calculated on a straight line basis over the asset's expected useful life and adjusted for any impairment charges. Expected useful lives of long-lived assets are reviewed annually, and where they differ from previous estimates, depreciation periods are changed accordingly. Ordinary repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The costs of major renovations are included in the asset's carrying amount when it is probable that the company will derive future economic benefits. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Major assets with different expected useful lives are reported as separate components. Each component is depreciated on a straight line basis over its expected useful life.

Property, plant and equipment are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the asset's carrying amount and its recoverable amount is recognised in the in income statement as impairment. Property, plant and equipment that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.5 Capitalised exploration and licence costs

Exploration costs for oil and gas properties

The group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells, are expensed as incurred. Costs related to drilling of exploration wells, are temporarily capitalised pending the evaluation of the potential existence of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licences are capitalised as intangible assets.

Capitalised costs of acquiring licences and drilling exploration wells are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. The difference between the asset's carrying amount and its recoverable amount is recognised in the income statement as impairment.

Capitalised exploration and licence costs will be depreciated using the unit-of-production method as reserves are produced.

2.6 Farm in and farm out in the exploration phase

Agreements in connection with acquisition/sale of interests in licences in the exploration phase (farm in/ farm out agreements), often involve a situation where the owner of a working interest (the farmor) transfers a portion of its working interest to another party (the farmee) in return for the farmee's performance of some agreed action. For example, the farmee may agree to cover/ carry drilling expenses for the farmor limited to a fixed amount. In return, the farmor agrees to transfer a portion of the working interest in the property to the farmee. This well carry/carried interest is accounted for by the farmee as the costs occur and is classified in accordance with the policy for treatment of the exploration expenses (for North Energy, the successful efforts method). The farmor does not record any profit or loss but accounts for the

Note 2 continued

well carry as an expense reduction when it occurs.

A farm in/farm out agreement is recognised when risks and rewards of ownership are transferred, which usually take place when necessary official approvals are given.

2.7 Interests in oil and gas licences
The group's interests in oil and gas licences are accounted for by recognising the group's share of the licences' individual expenses, assets, liabilities and cash flows. Each item is classified and presented in its respective line-items in the financial statements.

2.8 Leases (as lessee)
Leases in which most of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.9 Receivables
Receivables are initially recognised at fair value. The receivables are subsequently carried at amortised cost using the effective interest method. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and this loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash. The asset's carrying amount is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

2.10 Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

2.11 Borrowings and convertible loans
All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of transaction/issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Any difference between the consideration received net of transaction/issue costs associated with the borrowing and the redemption value is recognised in the income statement over the term of the loan.

The conversion rights related to the convertible loans are classified as a financial obligation (derivative), and are measured at fair value with changes in fair value recognised in the income statement as financial items.

2.12 Taxes
Income taxes for the period comprises tax payable, refundable tax from the refund tax value of exploration expenses and changes in deferred tax.

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are calculated on the basis of existing temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax bases, together with tax losses carried forward at the balance sheet date. Deferred tax assets and liabilities are calculated on the basis of the tax rates and tax legislation expected to exist when the assets are realised or the liabilities are settled, based on the tax rates and tax legislation that have been enacted or substantially enacted on the balance sheet date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the deferred tax asset can be utilised. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Companies operating on the Norwegian continental shelf under the offshore tax regime can claim the tax value of any unused tax losses related to their offshore activities to be paid in cash by the tax authorities when offshore activities subject to additional tax cease. Deferred tax assets based on offshore tax losses carried forward are therefore recognised in full.

2.13 Pension plans

Pension plans are financed through payments to insurance companies, and are determined on the basis of periodic actuarial estimates. The group has a defined benefit plan. This is a pension plan which defines the pension payment that the employee will receive when retiring. The pension payment is generally influenced by one or several factors, such as age, years of service and salary.

The recognised liability is the present value of the defined benefits on the balance sheet date less the fair value of the plan assets. The pension liability is estimated annually by an independent actuary, based on a linear method. The present value of the defined benefits is determined by discounting the estimated future payments by the interest on a bond issued by a company with a high credit rating in the same currency as the benefit will be paid in, and with terms approximately equal to the terms of the related pension liability.

Variances in estimates owing to new information or changes in actuarial assumptions are recognised directly in equity through the statement of comprehensive income in the period in which they arise.

Changes in pension plan benefits are recognised immediately in the income statement.

2.14 Bonus shares

The fair value of bonus shares in connection with the bonus programme for employees is charged to expenses. The group recognises a corresponding increase in equity.

2.15 Provisions

A provision is recognised when the company has a present legal or constructive obligation as a result of past events, it is probable (ie, more likely than not) that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision owing to the passage of time is recognised as a financial cost.

The group recognises a provision and an expense for severance payments when a legal obligation exists to make severance payments.

The group recognises a provision and an expense for bonuses to employees when the company is contractually obliged or where there is a past practice that has created a constructive obligation. The part of the bonus which is equity-settled (the bonus shares) is charged to expenses with a corresponding increase in equity.

2.16 Trade creditors

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Contingent liabilities

Contingent liabilities are not recognised in the financial statements. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

2.18 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shares using the weighted average number of ordinary shares outstanding during the year after deduction of the average number of treasury shares held over the period.

The calculation of diluted earnings per share is consistent with the calculation of the basic earnings per share, but gives effect at the same time to all dilutive potential ordinary shares that were outstanding during the period, by adjusting the profit/loss and the weighted average number of shares outstanding for the effects of all dilutive potential shares, ie:

- the profit/loss for the period attributable to ordinary shares is adjusted for changes in profit/loss that would result from the conversion of the dilutive potential ordinary shares
- the weighted average number of ordinary shares is increased by the weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

2.19 Segment reporting

The group's only business segment is exploration for oil and gas on the Norwegian continental shelf. Based on this, no segment note is presented and this is in accordance with management's reporting.

2.20 Cost of equity transactions

Transaction costs directly linked to an equity transaction are recognised directly in equity, net after deducting tax.

2.21 Cash flow statement

The cash flow statement is prepared by using the indirect method.

Note 2 continued

2.22 Events after the balance sheet date

The financial statements are adjusted to reflect events after the balance sheet date that provide evidence of conditions that existed at the balance sheet date (adjusting events). The financial statements are not adjusted to reflect events after the balance sheet date that are indicative of conditions that arose after the balance sheet date (non-adjusting events). Non-adjusting events are disclosed if significant.

2.23 Changes in accounting policies and disclosures

(a) New and amended standards and interpretations

Effective from 1 January 2014, the group has implemented IFRS 10, IFRS 11 and IFRS 12, amendments to IAS 27 (2011), IAS 28 (2011), IAS 32 and IAS 39, and IFRIC 21. None of the new standards, amendments and interpretations to existing standards had any material impact on the group's financial statements.

(b) IFRS and IFRIC issued but not adopted by the group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. The most significant standards are set out below.

IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. A new expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group has yet to assess IFRS 9's full impact.

IFRS 15, Revenue from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group has yet to assess IFRS 15's impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group's financial statements.

Note 3

Financial risk management

3.1 Financial risks

Exploration for oil and gas involves a high degree of risk, and the group is subject to the general risk factors pertaining to this business, such as (i) volatility of oil and gas prices, (ii) uncertainty pertaining to estimated oil and gas reserves, (iii) operational risk related to oil and gas exploration and (iv) volatility in exchange rates. Furthermore, only a few prospects that are explored are ultimately developed into production.

Furthermore, the group is exposed to certain types of financial risks. Management involves receivables, loans, accounts payable and drawing rights to financial institutions. The business activities of the group involve exposure to credit, interest rate, liquidity and currency risk.

(a) Credit risk

The group is mainly exposed to credit risk related to bank deposits, receivables from interests in licences and loans to employees. The exposure to credit risk is monitored on an ongoing basis. As all counterparties have a high credit rating, there are no expectations that any of the counterparties will not be able to fulfil their liabilities. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

The group's exposure to interest rate risk is related to usage of the credit facility, with floating interest rate conditions. The group is therefore exposed to interest rate risk as part of its normal business activities and the aim is to keep this risk at an acceptable level.

The group has a revolving credit facility which entitles the group to borrow up to NOK 950 million. The interest rate is Nibor + 1.7 per cent. The agreement includes an option to increase the facility up to NOK 1 150 million. See note 11 for further information. The loan is secured by a pledge in tax receivable from refunds pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has. The group has no other interest-bearing borrowings with floating interest rate conditions. The convertible loans have fixed interest rate conditions.

Sensitivity analysis:
Interest rate sensitivity is calculated on the basis of exposure to interest-bearing debt with floating interest rate conditions on the balance sheet date.
2014: If Nibor had been 50 basis points higher/lower, the group's profit after tax would have been NOK 198 000 lower/higher.
2013: If Nibor had been 50 basis points higher/lower, the group's profit after tax would have been NOK 612 000 lower/higher.

(c) Liquidity risk

The company's liquidity risk is the risk that it will not be able to meet its financial obligations as they fall due. Sufficient liquidity will be held in regular bank accounts at all times to cover expected payments relating to operational activities and investment activities for two weeks ahead. The exploration drawing facility is used when cash liquidity is needed. In addition, short-term (12-month) and long-term (five-year) forecasts are prepared on a regular basis to plan the group's liquidity requirements. These plans are updated regularly for various scenarios and form part of the day-to-day decision basis for the group's board of directors. Some reporting requirements are associated with the agreement with the bank syndicate that furnished the credit facility, including quarterly updates of a revolving liquidity budget for the next 12 months. The company's objective for the placement and management of excess capital is to

Note 3 continued

maintain a very low risk profile and very good liquidity.

The conditions of the group's convertible loans are maturity in March 2017, during which repayments may be made but are not mandatory. The group's other financial liabilities, both for 2013 and 2014, are short term. Funds drawn (credit facility) both for 2013 and 2014 fall due within 12 months (in December the following year), while other financial liabilities both for 2013 and 2014 fall due within zero–six months.

(d) Currency risk

The parent company's and the subsidiary's functional currency is the NOK. The group is exposed to currency risk related to its activities because the value of potential discoveries is correlated with the USD and parts of the group's expenses are USD-based. The group has not entered into any agreements to reduce its exposure to foreign currencies. A weak Norwegian krone will increase expenses, and vice versa with a strong Norwegian krone.

3.2 Capital management

The group's aim for management of the capital structure is to secure the business in order to yield profit to shareholders and contributions to other stakeholders. In addition, an optimum capital structure will reduce the cost of capital. To maintain or change the capital structure in the future, the group can pay dividends to its shareholders, issue new shares or sell assets/licences to reduce debt. The group may buy its own shares. The timing of this is dependent on changes in market prices.

The group monitors its capital structure using an equity ratio, which is total equity divided by total assets. At 31 December 2014, the equity ratio was 74 per cent (49.8 per cent at 31 December 2013).

The company will handle any increased future capital requirements through selling assets, raising new capital, taking up loans, entering into carry agreements, strategic alliances and any combination of these, and adjusting the company's level of activity if required.

Note 4

Critical accounting estimates and judgements

4.1 Critical accounting estimates and assumptions

The preparation of the financial statements in accordance with the IFRS requires management to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Estimates and assumptions which represent a considerable risk for material changes in carrying amounts of assets and liabilities during the next fiscal year are presented below.

a) Tax receivable from refund tax value exploration expenses

The Norwegian taxation authorities may have a different understanding than the company regarding the definition of indirect exploration expenses pursuant to the Norwegian Petroleum Tax Act. See note 15.

b) Deferred tax/tax assets

Most critical estimates influencing the carrying amount are related to valuations/judgement of the utilisation of deferred tax assets. See note 15.

c) Capitalised exploration and licence costs

Capitalised exploration and licence costs are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. See note 17.

d) Pensions
The present value of pension liabilities depends on several different factors determined by different actuarial assumptions. The assumptions used to estimate net pension costs/revenue include the discount rate. Changes in this assumption will influence the carrying amount of the pension liabilities.

The group determines a suitable discount rate by the year end. This is the rate to be used when calculating the present value of future estimated outgoing cash flows needed to settle the pension liabilities. When determining a suitable discount rate, the group considers the interest rate of registered bonds of high quality issued in the same currency as the pension payment, and with approximately the same due date as the related pension liability.

Other pension assumptions are partly based on market terms. Additional information is presented in note 21.

4.2 Critical judgements in applying the company's accounting policies

Management has also made judgements in the process of applying the group's accounting policies. Such judgements with the most significant effect on the amounts recognised in the financial statements are presented in the following.

a) Accounting policy for exploration expenses
The group uses the successful efforts method to account for exploration costs. All exploration costs, with the exception of acquisition costs of licences and drilling costs of exploration wells resulting in commercial discoveries of oil and gas reserves, are expensed as incurred.

Note 5

Payroll and related expenses, remuneration of directors and management

Amounts in NOK 1 000	2014	2013
Salaries	30 026	34 866
Payroll tax	3 603	3 149
Share-based payment, bonus shares	621	0
Pension costs (see note 21)	15 831	9 760
Other benefits	2 867	3 253
Total	**52 948**	**51 029**
Average number of employees	40.4	35.1

Remuneration to directors and management in 2014

Amounts in NOK 1 000	Directors' fees	Salaries	Bonus expensed	Pension	Other *
*Management ****					
Erik Karlstrøm (CEO)		3 008	0	3 464	969
Knut Sæberg (CFO)		2 563	0	595	300
Astrid M Tugwell (vice president operations and HSEQ)		1 525	0	299	16
Kristin Ingebrigtsen (vice president organisation and communication)		1 443	0	382	19
Kristen Berli (vice president exploration and business development)		2 461	0	527	366
Marion Høgmo (vice president administration and HR) **		672	0	13	8
Board of directors					
Anders Onarheim (chair)	36				
Johan P Barlindhaug (director)	450				
Alexander Krogh (director)	110				
Jogeir Romestrand (director)	36				
Heidi Marie Petersen (director)	175				
Harriet Hagan (former director)	175				
Peter Mellbye (former director)	139				
Gunnar Hvammen (former director)	139				
Total	**1 260**	**11 671**	**0**	**5 280**	**1 678**

* Other includes benefits of free car, loan interest rate, allowances to cover telephone and internet, training fee, group life insurance and travel insurance. Where Erik Karlstrøm and Knut Sæberg are concerned, other also includes benefit of shares at a discounted price in connection with bonus shares, and compensation for the tax charge on the Top Hat pension scheme for Erik Karlstrøm. Where Kristen Berli is concerned, other includes a stay on bonus.
** Marion Høgmo left the company on 31 May 2014.
*** Figures for remuneration of management are exclusive of payroll tax.

Remuneration of CEO

The company's CEO has an agreed annual salary of NOK 2.98 million. Other benefits include free car, loan interest rate, and regular allowances to cover telephone, internet, training fee, pension, group life insurance and travel insurance. In addition, he is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to one-third of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. In the event of resignation at the request of the board of directors, the CEO has the right to a severance payment equivalent to two years of gross fixed salary. If the CEO resigns, no severance payment is payable. The CEO also has an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67 per cent of final salary paid.

Bonus programme

The management is included in the company's general employee bonus programme as determined by the board of directors. The bonus is limited to one-third of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for the area of responsibility of each member of the executive management. Both financial and non-financial parameters are used.

Severance payment
The CEO and CFO have 24-month severance payment agreements. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two years of gross fixed salary. The vice president for exploration and business development has an 18-month severance payment agreement, in which six months are fixed and salary earned in any new employment is deducted in the remaining 12 months.

Information about loans to employees 2014

Amounts in NOK 1 000	Loan at 31.12	Maturity	Interest rate
Loan to Erik Karlstrøm	750	10 years	2%
Loans to other employees	0	20 years	2%
Total	**750**		

The loans are provided for house purchase, and private estates are pledged as security. If their employment is terminated, employees must settle the remaining outstanding loan amount.

Remuneration to directors and management in 2013

Amounts in NOK 1 000	Directors' fees	Salaries	Bonus expensed	Pension	Other *
Management ****					
Erik Karlstrøm (CEO)		2 893	1 033	4 096	79
Knut Sæberg (CFO)		2 446	816	645	24
Erik Henriksen (vice president exploration)		2 004	622	341	26
Astrid M Tugwell (vice president development and HSEQ)		1 478	480	283	24
Vigdis Wiik Jakobsen (vice president portfolio) **		1 238	401	196	17
Marion Høgmo (vice president administration and HR)		1 073	325	173	27
Kristin Ingebrigtsen (vice president strategy and PA/PR)		1 315	443	215	27
Kristen Berli (vice president exploration and business development) ***		1 326	0	321	20
Board of directors					
Johan P Barlindhaug (chair)	572				
Anders Onarheim (director)	0				
Harriet Hagan (director)	180				
Alexander Krogh (director)	10				
Jogeir Romestrand (director)	0				
Heidi Marie Petersen (director)	165				
Jørn Olsen (former director)	63				
Ane Marta S Rasmussen (former director)	50				
Leif W Finsveen (former director)	180				
Ola Krohn-Fagervoll (former director)	180				
Total	**1 400**	**13 774**	**4 121**	**6 271**	**244**

* Other includes benefits of free car, loan interest rate, allowances to cover telephone and internet, training fee, group life insurance and travel insurance.
** Vigdis Wiik Jakobsen left the company on 1 September 2013.
*** Kristen Berli joined the company on 1 June 2013.
**** Figures for remuneration of management are exclusive of payroll tax.

Information about loans to employees 2013

Amounts in NOK 1 000	Loan at 31.12	Maturity	Interest rate
Loan to Erik Karlstrøm	955	10 years	2%
Loans to other employees	1 096	20 years	2%
Total	2 051		

The loans are provided for house purchase, and private estates are pledged as security. If their employment is terminated, employees must settle the remaining outstanding loan amount.

The board of directors' declaration regarding determination of salary and other remuneration of management employees

The board of directors must prepare a declaration in accordance with Section 6-16a of the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven). In accordance with Section 7-31b of the Norwegian Accounting Act, the content of this declaration is presented below.

The main principle for the company is that remuneration of management is competitive in such a way that the company is able to attract and retain competent management employees. The remuneration will be competitive and based on individual criteria such as experience, area of responsibility and achievement of results. The remuneration system for management employees will further encourage a strong and lasting profit-oriented organisation, which contributes to increasing shareholder value.

Total remuneration of management employees includes the following.

(1) Market-based fixed salary.

(2) Bonus. The management is included in the company's general employee bonus programme. The bonus is limited to one-third of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for the area of responsibility of each member of the executive management. Both financial and non-financial parameters are used.

(3) Pension and insurance. The management is included in the company's general pension and insurance scheme. The CEO also has an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67 per cent of final annual salary.

(4) Severance payment. The CEO and CFO have agreements covering severance payments. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two years of gross fixed salary.

(5) Other benefits such as free car, loan interest rate, and regular allowances to cover telephone, internet, training fee and travel insurance.

Note 6

Other operating expenses and auditor's fees

Other operating expenses include

Amounts in NOK 1 000	2014	2013
Travelling expenses	5 063	4 310
Lease expenses (see note 20)	5 715	6 397
Consultant and other fees	8 308	7 190
Advertising costs	1 550	1 904
Other administrative expenses	15 563	13 619
Total	**36 199**	**33 419**

Remuneration to auditor is allocated as specified below

Amounts in NOK 1 000	2014	2013
Audit	451	438
Attestations	49	28
Accounting assistance	39	11
Assistance share issues and prospectus	60	0
Other assistance	37	34
Total, excl VAT	**636**	**510**

Note 7

Other non-current receivables

Other non-current receivables include

Amounts in NOK 1 000	2014	2013
Loans to employees (note 5)	750	2 051
Deposit	463	458
Pension assets (note 21)	3 176	8 473
Total	**4 388**	**10 982**

Note 8

Prepayments and other receivables

Prepayments and other receivables include

Amounts in NOK 1 000	2014	2013
Prepaid expenses	6 148	3 449
VAT receivable	3 679	1 862
Receivables from interests in licences	30 485	9 781
Other items	66	1 220
Total	**40 379**	**16 312**

Note 9

Cash and cash equivalents

Cash and cash equivalents

Amounts in NOK 1 000	2014	2013
Bank deposits	25 740	15 024
Total cash and cash equivalents	**25 740**	**15 024**
Of this:		
Restricted cash for withheld taxes from employees salaries	2 901	2 581

Note 10

Share capital and shareholder information

Amounts in NOK 1 000	2014	2013
Number of outstanding shares at 1 January	40 813 448	40 813 448
New shares issued during the year:		
Issued in exchange for cash	71 382 154	0
Issued in connection with conversion of convertible loan	6 851 463	0
Number of outstanding shares at 31 December	**119 047 065**	**40 813 448**
Nominal value NOK per share at 31 December	1.00	1.00
Share capital NOK at 31 December	119 047 065	40 813 448

North Energy has one share class with equal rights for all shares. No dividends have been proposed or paid in 2013 or 2014.

Main shareholders at 31 December 2014

Shareholder	Number of shares	% share
ELECTROMAGNETIC GEOSERVICES ASA	11 851 463	9.96%
CITIBANK. N.A. S/A BARCLAYS BANK	9 000 000	7.56%
ODIN OFFSHORE	8 750 000	7.35%
ISFJORDEN	8 570 651	7.20%
BNY MELLON SA/NV	6 130 000	5.15%
UBS AG A/C OMNIBUS-DISCLOSE	6 000 000	5.04%
THE NORTHERN TRUST CO.	5 655 820	4.75%
THE LIVERPOOL LP	3 405 000	2.86%
JPB AS	3 282 423	2.76%
SUNDT AS	3 255 540	2.73%
CACEIS BANK FRANCE	2 886 911	2.43%
SKS EIENDOM AS	2 624 920	2.20%
STATE STREET BANK AND TRUST CO.	2 574 297	2.16%
EUROCLEAR BANK S.A.	2 380 340	2.00%
MTBJ: BROWN BROTHERS HARRI	1 834 115	1.54%
RBC INVESTOR SERVICE	1 637 750	1.38%
KLP AKJE NORGE VPF	1 500 000	1.26%
MP PENSJON PK	1 443 000	1.21%
ORIGO KAPITAL AS	1 343 569	1.13%
TAJ HOLDING AS	1 205 000	1.01%
Total 20 largest shareholders	85 330 799	71.68%
Other shareholders	33 716 266	28.32%
Total	119 047 065	100.00%

Number of shares owned by management and directors at 31 December 2014

Shareholder	Number of shares	% share
Management		
Erik Karlstrøm (CEO)	714 338	0.60%
Knut Sæberg (CFO)	92 869	0.08%
Astrid M Tugwell (vice president operations and HSEQ)	49 427	0.04%
Kristen Berli (vice president exploration and business development)	113 363	0.10%
Board of directors		
Johan P Barlindhaug (director), through JPB AS	3 282 423	2.76%
Jogeir Romestrand (director), through Rome AS	450 000	0.38%
Heidi M Petersen (director), through Luuna AS	45 000	0.04%
Alexander Krogh (director)	8 500	0.01%
Total	**4 755 920**	**3.99%**

Number of shares owned by management and directors at 31 December 2013

Shareholder	Number of shares	% share
Management		
Erik Karlstrøm (CEO), directly and through Ninerik AS	642 980	1.58%
Knut Sæberg (CFO)	32 073	0.08%
Astrid M Tugwell (vice president development and HSEQ)	49 427	0.12%
Kristen Berli (vice president exploration and business development)	48 027	0.12%
Marion Høgmo (vice president administration and HR)	8 056	0.02%
Board of directors		
Johan P Barlindhaug (chair), through JPB AS	2 783 423	6.82%
Gunnar Hvammen (director), through Solan Capital AS	1 410 073	3.45%
Heidi M Petersen (director), through Luuna AS	45 000	0.11%
Harriet Hagan (director)	25 000	0.06%
Alexander Krogh (director)	8 500	0.02%
Total	**5 052 559**	**12.38%**

Note 11
Current borrowings

Current borrowings include

Amounts in NOK 1 000	2014	2013
Revolving credit facility (exploration loan), funds drawn	55 000	170 000
Revolving credit facility (exploration loan), transaction costs	0	(5 011)
Balance 31 December	**55 000**	**164 989**

North Energy entered in December 2014 into an agreement to renew its NOK 950 million exploration financing facility for the 2015-2017 period. The agreement includes an option to increase the facility up to NOK 1 150 million. The interest rate is Nibor + 1.7 per cent.

The loan is secured by a pledge in tax receivable from refunds pursuant to the Norwegian Petroleum Tax Act and the interests in production licences which the company at any time has.

Note 12
Other current liabilities

Amounts in NOK 1 000	2014	2013
Public duties payable	3 569	3 208
Accruals, from interests in licences	24 277	13 717
Holiday pay and bonus payable	4 703	9 306
Fair value of conversion rights (see note 23)	134	899
Other accruals for incurred costs	6 557	13 791
Total	**39 239**	**40 920**

Note 13
Earnings per share

Amounts in NOK 1 000	2014	2013
Loss for the year (NOK 1 000)	(124 509)	(149 664)
Weighted average number of shares outstanding	104 744 732	40 813 448
Earnings per share (NOK per share)		
- Basic	(1.19)	(3.67)
- Diluted	(1.19)	(3.67)

The dilution effect of potential shares from convertible loans is not presented in the income statement, since the potential shares would have reduced the loss per share.

Note 14
Related parties

The company's transactions with related parties:

Amounts in NOK 1 000

(a) Purchase of services

Purchase of services from	Description of services	2014	2013
Johan Petter Barlindhaug (director)	Consultancy services	93	87

Services are purchased on market terms.

(b) Remuneration of management and directors
See note 5.

(c) Loans to related parties
See note 5 for information about loans to employees.

(d) Overview of subsidiaries
The following subsidiaries are included in the consolidated financial statements:

Company	Acquisition date	Location	Equity and voting share
4Sea Energy AS	11 Feb 10	Norway	100%

Note 15

Tax

Specification of income tax

Amounts in NOK 1 000	2014	2013
Calculated refund tax value of exploration costs this year	373 624	352 453
Of this, refund not recognised in income statement (acquisition of licences recognised net of tax)	(45 735)	(120)
Correction refund previous years	1 298	(52)
Change deferred tax asset in balance	30 179	213 397
Of this, deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax)	(81)	0
Of this, deferred tax asset not recognised in income statement (sale of licences recognised net of tax)	(71)	(82)
Of this, deferred tax asset related to items in comprehensive income recognised in comprehensive income	(2 570)	1 085
Of this, deferred tax asset related to equity transactions recognised directly in equity	(3 433)	0
Total income tax credit	**353 212**	**566 682**

Specification of tax receivable refund tax value exploration expenses

Amounts in NOK 1 000	2014	2013
Calculated refund tax value of exploration costs this year	373 624	352 453
Correction refund previous years, not yet assessed	0	(233)
Total tax receivable refund tax value exploration expenses	**373 624**	**352 220**

Oil exploration companies operating on the Norwegian continental shelf may claim a 78 per cent refund of their exploration costs limited to taxable losses for the year. The refund is paid in December the following year.

Specification of temporary differences, tax losses carried forward and deferred tax

Amounts in NOK 1 000	31.12.14	31.12.13
Property, plant and equipment	(4 121)	(3 318)
Capitalised exploration and licence costs	11 077	17 444
Pensions	(7 714)	982
Current borrowings	0	5 011
Convertible loans and conversion rights	744	433
Tax losses carried forward, onshore	(31 158)	(34 597)
Tax losses carried forward, offshore only 27% basis	(137 096)	(105 652)
Tax losses carried forward, offshore only 51% basis	(931)	(918)
Tax losses carried forward, offshore both 27% and 51% basis	(120 422)	(110 144)
Total basis for deferred tax	**(289 622)**	**(230 759)**
Deferred tax liability (-) / tax asset (+)	140 182	110 939
Uncapitalised deferred tax asset (valuation allowance) *	(8 435)	(9 370)
Deferred tax liability (-) / tax asset (+) in balance	**131 748**	**101 568**

Companies operating on the Norwegian continental shelf under the offshore tax regime can claim the tax value of any unused tax losses related to their offshore activities to be paid in cash from the tax authorities when offshore activities subject to additional tax cease. Deferred tax assets based on offshore tax losses carried forward are therefore recognised in full.

* Uncapitalised deferred tax asset relates mainly to onshore tax loss carried forward in subsidiary 4Sea Energy AS.

Note 15 continued

Reconciliation of effective tax rate

Amounts in NOK 1 000	2014	2013
Profit before tax	(477 722)	(716 346)
Expected income tax credit 78%	372 623	558 750
Adjusted for tax effects (27%-78%) of the following items:		
Permanent differences	(12 724)	19 429
Correction previous years	838	(56)
Interest on tax losses carried forward offshore	1 717	1 501
Finance items and different tax rate in subsidiary	(10 177)	(12 069)
Changed tax rates from 1 January 2014	0	(1 340)
Change in valuation allowance for deferred tax assets and other items	936	467
Total income tax credit	**353 212**	**566 682**

Note 16

Property, plant and equipment

Amounts in NOK 1 000	Equipment, office machines, etc
2014	
Cost:	
At 1 Jan 14	44 289
Additions	7 347
Disposals	0
At 31 Dec 14	**51 637**
Depreciation and impairment:	
At 1 Jan 14	(35 124)
Depreciation this year	(6 611)
Impairment this year	0
Disposals	0
At 31 Dec 14	**(41 735)**
Carrying amount at 31 Dec 14	**9 901**

Amounts in NOK 1 000	Equipment, office machines, etc
2013	
Cost:	
At 1 Jan 13	41 998
Additions	2 292
Disposals	0
At 31 Dec 13	**44 289**
Depreciation and impairment:	
At 1 Jan 13	(26 244)
Depreciation this year	(8 880)
Impairment this year	0
Disposals	0
At 31 Dec 13	**(35 124)**
Carrying amount at 31 Dec 13	**9 165**
Economic life	3-10 years
Depreciation method	linear

Note 17

Capitalised and expensed exploration and licence costs

(a) Capitalised exploration and licence costs

Amounts in NOK 1 000	Capitalised exploration and licence costs
2014	
Cost:	
At 1 Jan 14	17 496
Additions, capitalised exploration and licence costs *	61 845
Disposals, impairment **	(66 880)
Disposals, sale	(922)
At 31 Dec 14	**11 540**
Amortisation and impairment:	
At 1 Jan 14	0
Amortisation this year	0
Impairment this year **	(66 880)
Disposals **	66 880
At 31 Dec 14	**0**
Carrying amount at 31 Dec 14	**11 540**

* Additions relate mainly to drilling of exploration wells in PL 713 (Pingvin) and PL 510 (Tvillingen South).

** Disposals relate mainly to impairment of capitalised expenses in PL 713 (Pingvin) and PL 510 (Tvillingen South). The Pingvin discovery is assessed at present to be not commercially recoverable. The licence partners in PL 510 have decided to plug and abandon the exploration well. This follows a period of difficulties with a liner setting covering the intermediate part of the well.

At 30 September 2014, North Energy completed the transaction whereby it acquired a 10 per cent interest in PL 507 (Lupus) from Tullow Oil Norge AS. The agreement was signed in June 2014 and the effective date for the transaction is 1 January 2014. The drilling of the exploration well was completed in July 2014 and the result was dry. Drilling expenses and other exploration expenses in the interim period 1 January 2014 to 30 September 2014 were NOK 56.7 million, and were expensed net after tax at NOK 12.5 million.

Amounts in NOK 1 000	Capitalised exploration and licence costs
2013	
Cost:	
At 1 Jan 13	268 839
Additions, capitalised exploration and licence costs *	251 427
Disposals, impairment **	(502 665)
Disposals, sale	(105)
At 31 Dec 13	**17 496**
Amortisation and impairment:	
At 1 Jan 13	0
Amortisation this year	0
Impairment this year **	(502 665)
Disposals **	502 665
At 31 Dec 13	**0**
Carrying amount at 31 Dec 13	**17 496**

* Additions relate mainly to drilling of exploration wells in PL 535 (Norvarg) and PL 299 (Frode). The well in PL 535 is an appraisal on the Norvarg discovery.

** Disposals relate to impairment of capitalised expenses in PL 535 (Norvarg) and PL 299 (Frode). The Norvarg discovery is assessed to be not commercially recoverable and the exploration well in PL 299 (Frode) was dry.

Depreciation method: capitalised exploration and licence costs will be depreciated using the unit of production method if and when reserves are produced.

(b) Expensed exploration and licence costs

Specification of expensed exploration and licence costs

Amounts in NOK 1 000	2014	2013
Share of exploration expenses from participation in licences, incl seismic, G&G, dry wells, carry	80 040	84 336
Impairment of capitalised exploration expenses	66 780	502 665
Seismic, EM data library and other exploration costs	218 312	109 550
Total exploration and licence costs	**365 132**	**696 551**

Note 18

Finance income and costs

Finance income

Amounts in NOK 1 000	2014	2013
Interest income bank deposits	319	118
Interest income on tax refund	5 086	7 329
Other interest income	27	186
Foreign exchange gain	5 461	5 772
Finance income, from interests in licences	202	172
Change in fair value of conversion rights	993	433
Other finance income	0	2
Total finance income	**12 089**	**14 011**

Finance costs

Amounts in NOK 1 000	2014	2013
Interest expenses and transaction costs on current borrowings	19 516	29 582
Interest expenses and amortised cost convertible loans	5 963	1 249
Foreign exchange loss	5 821	7 123
Other finance costs	1 114	1 101
Total finance costs	**32 414**	**39 055**

Note 19

Financial instruments

(a) Categories of financial instruments

At 31 December 2014

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7) [1]	750
Other current receivables (see note 8) [1]	30 551
Cash and cash equivalents	25 740
Total	**57 042**

Amounts in NOK 1 000	Financial liabilities measured at amortised cost	Financial liabilities at fair value through profit or loss
Liabilities:		
Convertible loans	31 120	
Trade creditors	20 997	
Fair value of conversion rights	0	134
Other current liabilities (see note 12) [2]	28 979	
Current borrowings	55 000	
Total	**136 096**	**134**

At 31 December 2013

Amounts in NOK 1 000	Loans and receivables
Assets:	
Other non-current receivables (see note 7) [1]	2 051
Other current receivables (see note 8) [1]	11 001
Cash and cash equivalents	15 024
Total	**28 076**

Amounts in NOK 1 000	Financial liabilities measured at amortised cost	Financial liabilities at fair value through profit or loss
Liabilities:		
Convertible loans	40 697	
Trade creditors	8 101	
Fair value of conversion rights	0	899
Other current liabilities (see note 12) [2]	23 023	
Current borrowings	164 989	
Total	**236 810**	**899**

[1] Pension assets, deposit, prepaid expenses and VAT receivable are excluded since they are not defined as financial instruments.
[2] Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

(b) Fair value of financial instruments

Fair value other non-current receivables.
The fair value of other non-current receivables is calculated by discounting cash flows with a rate equal to an alternative rate of four per cent (2013: five per cent). The discount rate corresponds to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2014	2013
Other non-current receivables (see note 7)	608	1 579

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value, since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors, other current liabilities and current borrowings is approximately equal to fair value, since the effect of discounting is not significant.

The carrying amount of convertible loans is approximately equal to fair value, since there have been no material changes in market interest rate since the borrowings.

Fair value of conversion rights is calculated using a model which is based on observable data (level 2 in the fair value hierarchy).

(c) Creditworthiness of financial assets

The group does not have a system that separates receivables and loans by counterparty credit rating.

Non-current receivables are mainly loans to employees. Loans to employees are repaid as agreed and have not been impaired in 2013 or 2014. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

	2014	2013
Bank deposits:	25 740	15 024

Amounts in NOK 1 000	2014	2013
No external credit rating	0	0
A	25 740	15 024
AA	0	0
Total	**25 740**	**15 024**

(d) Financial risk factors

See note 3 for financial risk factors and risk management, sensitivity analysis and capital management.

Note 20
Leases

North Energy has no finance leases.
North Energy has entered into operating leases for office premises, cars, machinery and office furniture.
The leases do not impose any restrictions on the company's dividend policy or financing opportunities.

Lease costs consist of the following

Amounts in NOK 1 000	2014	2013
Lease office premises (inclusive joint costs)	6 147	7 134
Lease machinery and office furniture	21	45
Lease cars	197	137
Sublease office premises	(650)	(918)
Total lease costs	**5 715**	**6 397**

Future minimum rents related to non-cancellable leases and subleases fall due as follows

Amounts in NOK 1 000	2014	2013
Within 1 year	4 340	2 746
1 to 5 years	12 693	10 984
After 5 years	5 663	8 238
Total	**22 696**	**21 967**

Note 21
Pensions

The group has defined benefit plans. Future pension payments are mainly influenced by years of service, salary and payments from National Insurance. The pension plans include 43 employees in the group.

The pension arrangements fulfil the requirements of the Norwegian Act on mandatory occupational pensions.

Actuarial assumptions

	2014	2013
Discount rate	3.00%	4.10%
Expected annual salary increases	3.25%	3.75%
Expected annual adjustment of pension benefits	3.00%	3.50%
Expected rate of adjustment to NI base rate (G)	3.00%	3.50%
Mortality assumptions are based on mortality table	K2013 BE	K2013 BE
Disability assumptions are based on disability table	IR02	IR02

The company has obtained actuarial estimates with updated assumptions (discount rate 2.3 per cent, salary increases 2.75 per cent, adjustment of pension benefits 2.5 per cent, adjustment to NI base rate 2.5 per cent), and determined that the impact on the financial statements is not material.

Specification of net pension liability

Amounts in NOK 1 000	2014	2013
Present value of funded obligations at 31.12	50 912	33 343
Estimated fair value of plan assets at 31.12	43 198	34 325
Net pension liability / (assets)	**7 714**	**(982)**

Classification of net pension liability in the balance sheet

Amounts in NOK 1 000	2014	2013
Other non-current receivables (note 7)	3 176	8 473
Pension liabilities	10 890	7 491
Net pension liability / (assets)	**7 714**	**(982)**

One individual pension plan was over funded by NOK 3.176 million at 31 December 2014 (NOK 8.473 million at 31 December 2013). The overfunding will be used to cover future liabilities, but not liabilities in other pension plans that the company has. The amount is therefore classified with other non-current receivables. This individual pension plan was presented gross in 2013, but has been presented net in 2014. Comparative figures in the balance sheet for 2013 have been restated, with NOK 6.52 million reclassified through a reduction of NOK 6.52 million in other long-term receivables and a corresponding reduction in pension liabilities.

Movement in the liability for defined benefit obligations during the year

Amounts in NOK 1 000	2014	2013
Defined benefit obligations at 1 January	33 343	30 667
Current service costs	9 978	9 249
Interest expense	1 576	1 229
Changes in pension plan	5 089	0
Remeasurements, actuarial loss/(gain)	926	(7 802)
Liability for defined benefit obligations at 31 December	**50 912**	**33 343**

Movement in fair value of plan assets for defined benefit obligations

Amounts in NOK 1 000	2014	2013
Fair value of plan assets at 1 January	34 325	29 854
Interest income	812	718
Remeasurements, actuarial gain/(loss)	(2 368)	(6 411)
Employer contributions	10 430	10 164
Fair value of plan assets at 31 December	**43 198**	**34 325**

Pension expense recognised in income statement

Amounts in NOK 1 000, incl. social security	2014	2013
Current service costs	9 978	9 249
Net interest expense	764	511
Changes in pension plan	5 089	0
Total pension expense included in payroll and related cost	**15 831**	**9 760**

Plan assets comprise the following	2014	2013
Shares	4.2%	6.1%
Alternative investments	4.3%	0.0%
Short-term bonds	16.2%	15.6%
Money market	24.7%	21.4%
Long-term bonds	35.3%	36.8%
Property	13.9%	18.3%
Other	1.5%	1.9%
Total	**100.0%**	**100.0%**

	2014	2013
Expected contributions to funded plans next year	11 100	7 788

Note 22

Gain from sales of licences

Gain from sales of licences in 2014 related to the sale of:

- 20 per cent interest in PL 498 to Lime Petroleum Norway AS
- 20 per cent interest in PL 509 to Lime Petroleum Norway AS
- five per cent interest in PL 591 to Lime Petroleum Norway AS

Gain from sales of licences in 2013 related to the sale of:

- 10 per cent interest in PL 299 to Spike Exploration Holding AS
- 10 per cent interest in PL 590 to Spike Exploration Holding AS
- five per cent interest in PL 498 to Lime Petroleum Norway AS
- 12.5 per cent interest in PL 503 and PL 503B to Lime Petroleum Norway AS
- five per cent interest in PL 616 to Lime Petroleum Norway AS
- 10 per cent interest in PL 707 to Lime Petroleum Norway AS
- 10 per cent interest in PL 708 to Lime Petroleum Norway AS

Note 23

Convertible loans

Convertible loans include

Amounts in NOK 1 000	**2014**	**2013**
Convertible loan from TGS Nopec	23 666	22 939
Convertible loan from Rex Technologies Management	8 332	19 089
Fair value of conversion rights at time of borrowing	(878)	(1 332)
Balance 31 December	31 120	40 697

Convertible loans from TGS Nopec with a borrowing limit up to NOK 200 million and from Rex Technologies Management with a borrowing limit up to NOK 100 million. The conditions of the loans are eight per cent annual interest and maturity in March 2017, during which time repayments may be made but are not mandatory. The lender has an annual conversion right on the loan which has accumulated over a 12-month period. The conversion price is NOK 8 per share. If the share price exceeds NOK 16 per share, however, the conversion price will be adjusted upwards equal to the share price minus NOK 8.

The conversion rights are classified as a financial obligation (derivative) and are measured at fair value with changes to fair value recognised in the income statement as financial items. The fair value of the conversion rights is presented in other current liabilities.

The former convertible loan from EMGS of NOK 75 million related to the licence for the EM data library. NOK 28.4 million of the loan was converted into shares on 19 August 2014, and the remaining loan balance of NOK 46.6 million was repaid on 2 September 2014. In connection with the conversion into shares, 6 851 463 new shares were issued. The conditions of the loan were six per cent annual interest and maturity on 2 September 2014. The conversion price was NOK 4.15 per share (subject to standard adjustment clauses), and the loan could be converted into shares in the period from 19 June to 19 August 2014.

The value of the liability component and the equity conversion component was determined when the loan was issued. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible loan. The liability component is subsequently stated at amortised cost. The residual amount, representing the value of the equity conversion component, is included in equity under other paid-in capital, net of deferred tax.

Note 24

Contingent liabilities

North Energy has not been involved in any legal or financial disputes in 2014 or 2013 where an adverse outcome is considered more likely than remote.

Note 25

Shares in licences and obligations

Shares in licences at 31 December 2014

Licence	Share	Licence	Share
PL 484	20%	PL 656	10%
PLs 503/503B/503C	12.5%	PL 693	15%
PL 507	10%	PL 707	10%
PL 510	20%	PL 708	10%
PL 587	40%	PL 713	20%
PLs 590/590B	30%	PL 719	20%
PLs 591/591B	15%	PL 722	10%
PL 595	40%	PL 762	20%
PL 601	20%	PL 769	20%
PL 616	15%	PL 770	20%

Obligations at 31 December 2014

Licence	Share	Obligation	Expected date	Obligation in Mill NOK
PL 510	20%	One firm well	Q1 2015	80-120 *
PL 591	15%	One firm well	Q2-Q3 2015	60-80
PL 616	15%	One firm well	Q3 2015	50-70
PL 708	10%	One firm well	Q4 2015	55-65

* Applies to exploration well 6406/6-4. The well may be redrilled later in 2015 or in 2016.

Shares in licences at 31 December 2013

Licence	Share	Licence	Share
PL 299	10%	PL 601	20%
PL 450	20%	PL 616	15%
PL 498	20%	PL 656	10%
PLs 503/503B	13%	PL 693	15%
PLs 509S/509BS	40%	PL 707	10%
PL 510	20%	PL 708	10%
PLs 535/535B	20%	PL 713	20%
PL 587	40%	PL 719	20%
PL 590	30%	PL 722	20%
PL 595	40%		

Obligations at 31 December 2013

Licence	Share	Obligation	Expected date
PL 510	20%	One firm well	Q4 2014
PL 713	20%	One firm well	Q3 2014

Note 26

Events after the balance sheet date

North Energy has signed an agreement to acquire 30 percent interest in licence PL 484 from Noreco Norway AS. The agreement is subject to regulatory approvals and the effective date is 1 January 2015.

In January 2015, North Energy was awarded two new licences in the 2014 APA round.
In response to the challenging market conditions following the collapse in the oil price, a strategic decision has been taken to co-locate the north Norwegian operations to Tromsø and the remaining operations to Stavanger. In parallel, the organisation will be trimmed as part of the measures taken to position North Energy for the future. In total, the measures to be implemented will reduce the company's annual operating costs to a level of NOK 100 million.

Financial statements

North Energy ASA

Income statement

(NOK 1 000)	Note	2014	2013
Gain from sales of licences	23	3 493	98 576
Payroll and related expenses	5	(52 948)	(50 933)
Depreciation and amortisation	16	(6 611)	(8 880)
Exploration expenses	17	(365 132)	(696 551)
Other operating expenses	6	(36 068)	(33 038)
Operating loss		**(457 266)**	**(690 825)**
Financial income	18	12 089	12 714
Financial expenses	18	(36 011)	(38 664)
Net financial items		**(23 922)**	**(25 950)**
Loss before income tax		**(481 188)**	**(716 776)**
Income tax credit	15	353 212	566 682
Loss for the year		**(127 975)**	**(150 094)**

Statement of comprehensive loss

(NOK 1 000)	Note	2014	2013
Loss for the year		**(127 975)**	**(150 094)**
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(loss) pension	21	(725)	306
Total other comprehensive income, net of tax		**(725)**	**306**
Total comprehensive loss for the year		**(128 700)**	**(149 787)**

Balance sheet

(NOK 1 000)	Note	31.12.14	31.12.13
ASSETS			
Non-current assets			
Property, plant and equipment	16	9 901	9 165
Capitalised exploration and licence costs	17	11 540	17 496
Investment in subsidiaries	13	50 000	50 000
Deferred tax asset	15	131 748	101 568
Other receivables	7	4 388	10 982
Total non-current assets		**207 578**	**189 212**
Current assets			
Prepayments and other receivables	8	40 377	16 421
Receivable from subsidiary		0	30
Tax receivable, refund tax value exploration expenses	15	373 624	352 220
Cash and cash equivalents	9	25 624	14 639
Total current assets		**439 626**	**383 310**
Total assets		**647 203**	**572 522**
EQUITY AND LIABILITIES			
Equity			
Share capital	10	119 047	40 813
Share premium		965 772	740 387
Other paid-in capital		30 691	29 570
Retained earnings		(702 471)	(573 770)
Total equity		**413 040**	**237 000**
Liabilities			
Non-current liabilities			
Pension liabilities	21	10 890	7 491
Convertible loans	25	31 120	40 697
Total non-current liabilities		**42 009**	**48 188**
Current liabilities			
Current borrowings	11	55 000	164 989
Loan from subsidiary	22	76 920	73 323
Trade creditors		20 995	8 101
Other current liabilities	12	39 239	40 920
Total current liabilities		**192 154**	**287 334**
Total liabilities		**234 164**	**335 522**
Total equity and liabilities		**647 203**	**572 522**

Alta, 25 March 2015

Anders Onarheim
Chair

Johan Petter Barlindhaug
Director

Elin Karfjell
Director

Alexander Krogh
Director

Jogeir Romestrand
Director

Heidi Marie Petersen
Director

Knut Sæberg
Acting CEO

Statement of changes in equity

(NOK 1 000)	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2013	40 813	740 387	29 570	(423 983)	386 788
Comprehensive income:					
Total compehensive income for 2013	0	0	0	(149 787)	(149 787)
Equity at 31 December 2013	**40 813**	**740 387**	**29 570**	**(573 770)**	**237 000**
Equity at 1 January 2014	40 813	740 387	29 570	(573 770)	237 000
Transactions with owners:					
Share issues	78 234	235 299	0	0	313 532
Share issue expenses (net after tax)	0	(9 914)	0	0	(9 914)
Convertible loan - equity component (net after tax)	0	0	632	0	632
Share-based payment, bonus shares	0	0	489	0	489
Comprehensive income:					
Total compehensive income for 2014	0	0	0	(128 700)	(128 700)
Equity at 31 December 2014	**119 047**	**965 772**	**30 691**	**(702 470)**	**413 040**

Cash flow statement

(NOK 1 000)	Note	2014	2013
Cash flow from operating activities			
Loss before income tax		(481 188)	(716 776)
Adjustments:			
Tax refunded	15	353 518	415 777
Deprecitiation	16	6 611	8 880
Gain from sales of licences	23	(3 493)	(98 576)
Impairment of capitalised exploration expenses	17	66 880	502 665
Pensions		5 402	(845)
Expensed share-based payment recognised in equity		621	0
Transaction costs and interest on borrowings recognised in P&L	18	27 529	30 440
Changes in fair value of conversion rights and loans at amortised cost	18	555	(433)
Debt-financed exploration expenses without impact on cash flows	25	75 000	0
Changes in trade creditors		12 894	(35 484)
Changes in other accruals		(66 491)	(9 179)
Net cash flow from operating activities		**(2 163)**	**96 467**
Cash flow from investing activities			
Purchase of property, plant and equipment	16	(7 347)	(2 292)
Proceeds from sales of licences	23	3 666	86 770
Capitalised exploration and licence costs	15,17	(64 484)	(251 547)
Proceeds from payments of other non-current receivables	7	1 296	5 091
Net cash flow from investing activities		**(66 869)**	**(161 978)**
Cash flow from financing activities			
Funds drawn current borrowings	11,22	500 000	529 025
Repayments of current borrowings	11,22	(615 000)	(494 844)
Funds drawn convertible loans	25	12 183	42 028
Repayments of convertible loans		(68 814)	0
Transaction costs and interest on borrowings paid	11,18	(19 772)	(23 788)
Proceeds from share issues		271 420	0
Net cash flow from financing activities		**80 017**	**52 421**
Net change in cash and cash equivalents		**10 985**	**(13 089)**
Cash and cash equivivalents at 1 January	9	14 639	27 728
Cash and cash equivivalents at 31 December	**9**	**25 624**	**14 639**

Note 1
General information

North Energy ASA is a public limited company incorporated and domiciled in Norway, with its main office in Alta. The company's shares were listed on Oslo Axess on 5 February 2010. The company's only business segment is exploration for oil and gas on the Norwegian continental shelf.

The financial statements were approved by the board of directors and CEO at 25 March 2015.

Note 2
Summary of significant accounting policies

2.1 Basis for preparation

The financial statements of North Energy ASA have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the additional requirements pursuant to the Norwegian Accounting Act.

2.2 Accounting policies

Accounting policies described in the consolidated financial statements of the North Energy group also apply for North Energy ASA. See the description of accounting policies in note 2 in the consolidated financial statements of the North Energy group. Investment in subsidiaries are valued in the financial statements of North Energy ASA (parent company) at cost, less any necessary impairment. Impairment to the recoverable amount will be carried out if impairment indicators are present and the recoverable amount is less than the book value. The recoverable amount is the higher of the asset's fair value less costs required to sell the asset and its value in use. Impairments are reversed when the cause and basis of the initial impairment are no longer present.

Note 3
Financial risk management

See note 3 to the consolidated financial statements.

Note 4
Critical accounting estimates and judgements

See note 4 to the consolidated financial statements.

Note 5

Payroll and related expenses, remuneration of directors and management

Amounts in NOK 1 000	2014	2013
Salaries	30 026	34 770
Payroll tax	3 603	3 149
Share-based payment, bonus shares	621	0
Pension costs (see note 21)	15 831	9 760
Other benefits	2 867	3 253
Total	**52 948**	**50 933**
Average number of employees	40.4	35.1

Remuneration of directors and management

See note 5 to the consolidated financial statements.

Information about loans to employees

See note 5 to the consolidated financial statements.

The board of directors' declaration regarding determination of salary and other remuneration of management employees

The board of directors must prepare a declaration in accordance with Section 6-16a of the Norwegian Public Limited Liability Companies Act (Allmennaksjeloven). In accordance with Section 7-31b of the Norwegian Accounting Act, the content of this declaration is presented below.

The main principle for the company is that remuneration of management is competitive in such a way that the company is able to attract and retain competent management employees. The remuneration will be competitive and based on individual criteria such as experience, area of responsibility and achievement of results. The remuneration system for management employees will further encourage a strong and lasting profit-oriented organisation, which contributes to increasing shareholder value.

Total remuneration of management employees includes the following.

(1) Market-based fixed salary.

(2) Bonus. The management is included in the company's general employee bonus programme. The bonus is limited to one-third of fixed salary, with distribution 50/50 in cash and bonus shares, where the cash bonus is earned first. The bonus is linked to the achievement of specified parameters for the area of responsibility of each member of the executive management. Both financial and non-financial parameters are used.

(3) Pension and insurance. The management is included in the company's general pension and insurance scheme. The CEO also has an early retirement pension scheme from the age of 62 until the ordinary retirement age (67 years), where the pension is 67 per cent of final annual salary.

(4) Severance payment. The CEO and CFO have agreements covering severance payments. In the event of resignation at the request of the board of directors, they have the right to a severance payment equivalent to two years of gross fixed salary.

(5) Other benefits such as free car, loan interest rate, and regular allowances to cover telephone, internet, training fee and travel insurance.

Note 6
Other operating expenses and auditor's fees

Other operating expenses include

Amounts in NOK 1 000	2014	2013
Travelling expenses	5 063	4 310
Lease expenses (see note 20)	5 653	6 150
Consultant and other fees	8 253	7 070
Advertising costs	1 550	1 904
Other administrative expenses	15 549	13 605
Total	**36 068**	**33 038**

Auditor's fees are allocated as specified below

Amounts in NOK 1 000	2014	2013
Audit	430	409
Attestations	49	28
Accounting assistance	39	11
Assistance share issues and prospectus	60	0
Other assistance	37	34
Total, excl VAT	**616**	**482**

Note 7
Other non-current receivables

Other non-current receivables include

Amounts in NOK 1 000	2014	2013
Loans to employees (note 5)	750	2 051
Deposit	463	458
Pension assets (note 21)	3 176	8 473
Total	**4 388**	**10 982**

Note 8
Prepayments and other receivables

Prepayments and other receivables include

Amounts in NOK 1 000	2014	2013
Prepaid expenses	6 148	3 449
VAT receivable	3 678	1 827
Receivables, from interests in licences	30 485	9 781
Other items	66	1 364
Total	**40 377**	**16 421**

Note 9
Cash and cash equivalents

Amounts in NOK 1 000	2014	2013
Bank deposits	25 624	14 639
Total cash and cash equivalents	**25 624**	**14 639**
Of this:		
Restricted cash for witheld taxes from employees salaries	2 901	2 581

Note 10
Share capital and shareholder information

See note 10 to the consolidated financial statements.

Note 11
Current borrowings

See note 11 to the consolidated financial statements.

Note 12
Other current liabilities

Amounts in NOK 1 000	2014	2013
Public duties payable	3 569	3 208
Accruals, from interests in licences	24 277	13 717
Holiday pay and bonus payable	4 703	9 306
Fair value of conversion rights	134	899
Other accruals for incurred costs	6 557	13 791
Total	**39 239**	**40 920**

Note 13
Investment in subsidiaries

Amounts in NOK 1 000

Company	Acquisition date	Location	Equity and voting share	Book value 31 Dec 14	Book value 31 Dec 13
4Sea Energy AS	11 Feb 10	Norway	100.00%	50 000	50 000
Total				50 000	50 000

On 11 February 2010, North Energy ASA completed the acquisition of 100 per cent of the outstanding shares in 4Sea Energy AS. The consideration for the acquisition comprise 1 886 792 new issued shares in North Energy ASA, each with a par value of NOK 1 and a price of NOK 26.5, ie, a total consideration of NOK 50 million.

Note 14
Related parties

See note 14 to the consolidated financial statements.

Note 15
Tax

Specification of income tax

Amounts in NOK 1 000	2014	2013
Calculated refund tax value of exploration costs this year	373 624	352 453
Of this, refund not recognised in income statement (acquisition of licences recognised net of tax)	(45 735)	(120)
Correction refund previous years	1 298	(52)
Change deferred tax asset in balance	30 179	213 397
Of this, deferred tax asset not recognised in income statement (acquisition of licences recognised net of tax)	(81)	0
Of this, deferred tax asset not recognised in income statement (sale of licences recognised net of tax)	(71)	(82)
Of this, deferred tax asset related to items in comprehensive income recognised in comprehensive income	(2 570)	1 085
Of this, deferred tax asset related to equity transactions recognised directly in equity	(3 433)	0
Total income tax credit	**353 212**	**566 682**

Specification of tax receivable refund tax value exploration expenses

Amounts in NOK 1 000	31.12.14	31.12.13
Calculated refund tax value of exploration costs this year	373 624	352 453
Correction refund previous years, assessed but not settled	0	(233)
Total tax receivable refund tax value exploration expenses	**373 624**	**352 220**

Oil exploration companies operating on the Norwegian continental shelf may claim a 78 per cent refund of their exploration costs limited to taxable losses for the year. The refund is paid in December the following year.

Note 15

Tax (continued)

Specification of temporary differences, tax losses carried forward and deferred tax

Amounts in NOK 1 000	31.12.14	31.12.13
Property, plant and equipment	(4 040)	(3 209)
Capitalised exploration and licence costs	11 077	17 444
Pensions	(7 714)	982
Current borrowings	0	5 011
Convertible loans and conversion rights	744	433
Tax losses carried forward, onshore	0	0
Tax losses carried forward, offshore only 27% basis	(137 096)	(105 652)
Tax losses carried forward, offshore only 51% basis	(931)	(918)
Tax losses carried forward, offshore both 27% and 51% basis	(120 422)	(110 144)
Total basis for deferred tax	**(258 383)**	**(196 054)**
Deferred tax liability (-) / tax asset (+)	131 748	101 568
Not capitalised deferred tax asset (valuation allowance)	0	0
Deferred tax liability (-) / tax asset (+) in balance	**131 748**	**101 568**

Companies operating on the Norwegian continental shelf under the offshore tax regime can claim the tax value of any unused tax losses related to its offshore activities to be paid in cash from the tax authorities when offshore activities subject to additional tax cease. Deferred tax assets based on offshore tax losses carried forward are therefore recognised in full.

Reconciliation of effective tax rate

Amounts in NOK 1 000	2014	2013
Profit before tax	(481 188)	(716 776)
Expected income tax credit 78%	375 326	559 085
Adjusted for tax effects (27%-78%) of the following items:		
Permanent differences	(12 724)	19 429
Correction previous years	838	(56)
Interest on tax losses carried forward offshore	1 717	1 501
Finance items	(11 945)	(12 284)
Changed tax rates from 1 January 2014	0	(993)
Change in valuation allowance for deferred tax assets	0	0
Total income tax credit	**353 212**	**566 682**

Note 16

Property, plant and equipment

See note 16 to the consolidated financial statements.

Note 17

Capitalised and expensed exploration and licence costs

See note 17 to the consolidated financial statements.

Note 18

Finance income and costs

Finance income

Amounts in NOK 1 000	2014	2013
Interest income bank deposits	319	117
Interest income on tax refund	5 086	6 032
Other interest income	27	186
Foreign exchange gain	5 461	5 772
Finance income, from interests in licences	202	172
Change in fair value of conversion rights	993	433
Other finance income	0	2
Total finance income	**12 089**	**12 714**

Finance costs

Amounts in NOK 1 000	2014	2013
Interest expense and transaction costs on current borrowings	19 516	27 752
Interest expenses and amortised cost convertible loans	5 963	1 249
Interest expense on loan from subsidiary	3 597	1 439
Foreign exchange loss	5 821	7 123
Other finance costs	1 114	1 101
Total finance costs	**36 011**	**38 664**

Note 19
Financial instruments

(a) Categories of financial instruments

At 31 December 2014

Amounts in NOK 1 000	Loans and receivables
Assets	
Other non-current receivables (see note 7) [1]	750
Other current receivables (see note 8) [1]	30 551
Cash and cash equivalents	25 624
Total	**56 926**

Amounts in NOK 1 000	Financial liabilities measured at amortised cost	Financial liabilities at fair value through profit or loss
Liabilities		
Convertible loans	31 120	
Trade creditors	20 995	
Fair value of conversion rights	0	134
Other current liabilities (see note 12) [2]	28 979	
Current borrowings	55 000	
Loan from subsidiary	76 920	
Total	**213 015**	**134**

At 31 December 2013

Amounts in NOK 1 000	Loans and receivables
Assets	
Other non-current receivables (see note 7) [1]	2 051
Other current receivables (see note 8) [1]	11 144
Cash and cash equivalents	14 639
Total	27 835

Amounts in NOK 1 000	Financial liabilities measured at amortised cost	Financial liabilities at fair value through profit or loss
Liabilities		
Convertible loans	40 697	
Trade creditors	8 101	
Fair value of conversion rights	0	899
Other current liabilities (see note 12) [2]	23 023	
Current borrowings	164 989	
Loan from subsidiary	73 323	
Total	**310 133**	**899**

[1] Pension assets, deposit, prepaid expenses and VAT receivable are excluded since they are not defined as financial instruments.

[2] Public duties payable and accruals for incurred costs are excluded since they are not defined as financial instruments.

(b) Fair value of financial instruments

Fair value other non-current receivables. The fair value of other non-current receivables is calculated by discounting cash flows with a rate equal to an alternative rate of four per cent (2013: five per cent). The discount rate corresponds to 10-year fixed-rate loans with the addition of relevant credit rating.

Amounts in NOK 1 000	2014	2013
Other non-current receivables (see note 7)	608	1 579

The carrying amount of cash and cash equivalents and other current receivables is approximately equal to fair value, since these instruments have a short term to maturity. Similarly, the carrying amount of trade creditors, other current liabilities, current borrowings and loan from subsidiary is approximately equal to fair value, since the effect of discounting is not significant.

The carrying amount of convertible loans is approximately equal to fair value, since there have been no material changes in market interest rate since the borrowings.

Fair value of conversion rights is calculated using a model which is based on observable data (level 2 in the fair value hierarchy).

(c) Creditworthiness of financial assets

The company does not have a system that separates receivables and loans by counterparty credit rating.

Non-current receivables are mainly loans to employees. Loans to employees are repaid as agreed and have not been impaired in 2014 or 2013. Cash and cash equivalents are receivables from banks, and Standard & Poor's credit rating of these banks is presented below:

	2013	2012
Bank deposits:	25 624	14 639

Amounts in NOK 1 000	2013	2012
No external credit rating	0	0
A	25 624	14 639
AA	0	0
Total	25 624	14 639

(d) Financial risk factors

See note 3 for financial risk factors and risk management, sensitivity analysis and capital management.

Note 20

Leases

The company has no finance leases.

The company has entered into operating leases for office premises, cars, machinery and office furniture.

The leases are cancellable and do not impose any restrictions on the company's dividend policy or financing opportunities.

Lease costs consist of ordinary lease payments and include

Amounts in NOK 1 000	2014	2013
Lease office premises (inclusive joint costs)	6 085	5 969
Lease machinery and office furniture	21	45
Lease cars	197	137
Sublease office premises	(650)	0
Total lease costs	5 653	6 150

Future minimum rents related to non-cancellable leases and subleases fall due as follows

Amounts in NOK 1 000	2014	2013
Within 1 year	4 340	2 746
1 to 5 years	12 693	10 984
After 5 years	5 663	8 238
Total	22 696	21 967

Note 21

Pension

See note 21 to the consolidated financial statements.

Note 22
Loan from subsidiary

Amounts in NOK 1 000	2014	2013
Loan from subsidiary 4Sea Energy AS	76 920	73 323
Total	**76 920**	**73 323**

From 22 December 2014, the interest rate is 10 per cent (previous interest rate was Nibor + three per cent). The loan is due to be settled in 2015.

Note 23
Gain from sales of licences

See note 22 to the consolidated financial statements.

Note 24
Shares in licences and obligations

See note 25 to the consolidated financial statements.

Note 25
Convertible loans

See note 23 to the consolidated financial statements.

Note 26
Contingent liabilities

The company has not been involved in any legal or financial disputes in 2014 or 2013 where an adverse outcome is considered more likely than remote.

Note 27
Events after the balance sheet date

See note 26 to the consolidated financial statements.

Responsibility statement by the board of directors and CEO

We declare, to the best of our judgement, that the annual financial statements for the period from 1 January to 31 December 2014 have been prepared in accordance with the applicable accounting standards, and that the information in the accounts fairly reflects the company's and group's assets, liabilities, financial position and results as a whole. We also declare that the directors' report provides a true and fair view of the company's and group's performance, results and position, along with a description of the most important risk and uncertainty factors facing the company and group.

Alta, 25 March 2015

Anders Onarheim Chair	Johan Petter Barlindhaug Director	Elin Karfjell Director	
Alexander Krogh Director	Jogeir Romestrand Director	Heidi Marie Petersen Director	Knut Sæberg Acting CEO

Auditor's report

To the Annual Shareholders' Meeting of North Energy ASA

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of North Energy ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2014, income statement, statement of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for the parent company and the group North Energy ASA as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the statements on Corporate Governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report and in the statements on Corporate Governance concerning the financial statements, the going concern assumption and the proposal for coverage of the loss is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information”, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company’s accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 25 March 2015
PricewaterhouseCoopers AS

Gunnar Slettebø
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

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